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*Hon. C. P. McTaggart*

**ROYAL COMMISSION**

**ON**

**TRANSPORTATION**

**HEARINGS**

**HELD AT**

**OTTAWA**

**VOLUME No.:**

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TORONTO, ONTARIO

## ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held in  
The Court Room, Board of Trans-  
port Commissioners Offices,  
Ottawa, Ontario, on the 8th day  
of September, 1960.

### COMMISSION

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Mr. A. G. Cooper, Q.C.	
Mr. G. S. Cumming	
Mr. H. W. Ellicott	Adviser
Mr. F.W. Anderson	Secretary
Major N. Lafrance	Assistant Secretary





Ottawa, Ontario,  
Thursday,  
September 8th, 1960

---On commencing at 10.00 a.m.

THE CHAIRMAN: Order, please. Well, gentlemen, we will resume our labours, and before we do I would like to introduce Mr. Carter who is now counsel for Saskatchewan.

MR. CARTER: Thank you, Mr. Chairman.

MR. FRAWLEY: I have a short statement to make. I suppose I may as well make it now.

This is by way of notice of an application I propose to make on Monday next, and, not having been able to get the notice out to them formally, I thought I should give oral notice now, chiefly to the railways. I will try to get the notice out in today's mail.

It is simply this, Mr. Chairman, that some time ago counsel for the provinces addressed a communication to the counsel for the Canadian Pacific and the counsel for the Canadian National, asking for information to enable us to make a submission with respect to what has commonly become known as "total income." The railways replied -- I should say the Canadian Pacific replied, because while the Canadian National, I think, also replied to that letter I don't think I received a copy; but, in any event, I expect I will be supplied with one. But the Canadian Pacific letter indicated that we should go to the Canadian Bureau of Statistics and get the information.





1  
2 Now, coming to my application, I propose to  
3 move that the Commission direct the Canadian Pacific and  
4 the Canadian National to supply the information which  
5 the provinces have requested. I am so instructed by  
6 the Government of Alberta. I will make that appli-  
7 cation here Monday next; and I am raising the subject  
8 now to give my friends, counsel for the railways, some  
9 indication that I will make that motion on Monday.

10 THE CHAIRMAN: We will hear you on Monday.

11 MR. SINCLAIR: So that my friend won't be  
12 taken by surprise I am instructed to oppose it.

13 THE CHAIRMAN: Are there any filings?

14 THE SECRETARY: On the 10th of November, 1959,  
15 an exhibit, No. 20, was filed by the Commission staff,  
16 entitled "Summary of Direct Transportation Assistance  
17 to the Maritime Provinces." I wish to inform those  
18 here that that is withdrawn and it is substituted by  
19 Exhibits 20A and 20B which are elaborations and correc-  
20 tions of this original Exhibit 20, and these are avail-  
21 able for today's business.

22 If I may continue, there are two or three  
23 other matters. We have been requested by the Western  
24 Quebec Forestry Association to take a brief which has  
25 been submitted to the Commission into the record as  
26 though read, and I would ask the Commission to permit  
27 that to be done.

28 THE CHAIRMAN: Yes.  
29  
30





Submission of Western Quebec Forestry  
Association Inc.

A - INTRODUCTION

1) The Western Quebec Forestry Association Inc., which groups the lumber dealers, forest contractors, and business men of the region, has studied, during the recent months, the freight rate situation in the Western Quebec region. Our region consists of the counties of Abitibi-East, Abitibi-West, Rouyn-Noranda and Temiskaming. Our study has limited itself strictly to the transport rates of lumber.

2) Although the people of Quebec, in the past, have abstained themselves from making representations to the various royal commissions, investigating the transport situation in Canada (i.e. the Turgeon Commission, 1951), it must not be concluded that there exists no problem here.

a) Wood, backbone of our regional economy:

3) Of the three sectors constituting the economy of the region: agriculture, forest and mines, the wood industry comes in first place. Its regional incidence makes it the most important of our industries. From an area of 25,037 square miles, the forested area of the region is estimated to 19,160 square miles and produces annually 190 millions F.B.M. and 435,000 cords of pulpwood.

4) Our region still has important forest reserves which will continue to supply an unequalled





1  
2 contribution to the economy of our region, if our  
3 forest contractors can keep their markets and  
4 expedite their products as economically as possible.

5 B - PRESENT SITUATION

6 5) Western Quebec has always been an  
7 important customer for the national railroads. During  
8 the years 1948 to 1952, in the two Abitibi counties,  
9 449,700,000 f.b.m. and 809,400 cords of pulpwood were  
10 shipped by railroad. The figures for 1959 are: on a  
11 total production, around 160,000,000 f.b.m. of sawing  
12 timber, close to 100,000,000 were shipped by rails.

13 6) The Western Quebec region is  
14 geographically isolated from the rest of the province  
15 and the lumber dealers must rely almost exclusively on  
16 the C.N.R. and the O.N.R. (C.P.R. in Temiskaming) to  
17 ship their wood.

18 7) Our region differs from other centers  
19 like Quebec, Montreal, the lower St. Lawrence and the  
20 Great Lakes. These regions are crossed by extensive  
21 waterways which facilitate outside trade by water  
22 shipping.

23 8) In the region mentioned above, and  
24 also the western provinces, competition favors the  
25 shipper. In the past, different rate systems have  
26 been applied: whether they were "competitive rates",  
27 "agreed charges", "tentative rate", "special rates"  
28 or "transcontinental rates", all favored certain  
29 provinces or parts of them, while our region  
30 benefited from none of these.





1  
2 a) Our market is the province of Ontario:

3 9) Ontario is the natural market for the  
4 producers of Western Quebec. In fact, our forest  
5 contractors cannot ship their wood to centers like  
6 Montreal or Quebec because these places are supplied  
7 by districts where salaries are inferior to ours and  
8 where waterways favor the producers of these areas.  
9 Our commerce is seriously threatened because of certain  
10 conditions determined by preferential rates (trans-  
11 continental rates) and granted to shippers of Western  
12 provinces (especially B.C.); these facts make  
13 competition almost impossible. Ontario has demonstrated  
14 at the hearings of the Rowell-Siroir Commission that  
15 "the western provinces benefit from an exceptionally  
16 favorable treatment to the detriment of other regions".  
17 (Rowell-Sirois report, page 199).

18 10) According to the present rates,  
19 Western producers ship wood to Ontario in many centers  
20 of consumption at the same tariff; on the other hand,  
21 producers of Western Quebec must contend with different  
22 tariffs for each locality, which favors dumping of  
23 western products on the markets of that province.

24 11) The chart below shows the differen  
25 of rates from towns of our region to certain cities  
26 of Ontario:  
27  
28  
29  
30





<u>From Prince George, B.C. to</u>	<u>From LaSarre to:</u>	
<u>Dif. in miles</u> <u>from Hamilton</u>	<u>Rates per</u> <u>100 lbs.</u>	<u>Rates per</u> <u>100 lbs.</u>
Hamilton	0	\$1.50 1/4 .47
London	80	1.50 1/4 .51
North Bay	256	1.50 1/4 .40
Sudbury	295	1.50 1/4 .41
Toronto	39	1.50 1/4 .47
Windsor	190	1.50 1/4 .59

b) Truck Transport:

12) Eight years ago, truck transport for lumber to the different centers of Ontario and Quebec was practically non existent, but since 1950 the quantity transported by truck has rapidly increased to almost 21 p.c. of the total transport of forest products. It is true that the same applies to other departments; furthermore, the Gordon Commission points it out in its report: "Competition from trucking will continue to take from the railroads, a good part of the most profitable of their traffic. Although the railroads still carry a large part of the total tonnage, their proportion of income is well below what their tonnage would suggest". (page 77).

13) In 1958, a brief compilation reveals that 21,275,000 f.b.m. of lumber were shipped out of the region to Ontario or Quebec by truck. Truck transport will probably increase in the next few years, because wood contractors tend more and more to ship their products directly to yards by this method.





1  
2 14) This trend of transport by trucks is  
3 coming from the advantages offered by the trucking  
4 system itself: lower freight rates, lower cost of  
5 handling material by the shippers. It is the general  
6 opinion of all regional wood producers that nothing  
7 but a freight rate revision can check the loss of  
8 traffic sustained by the railway transport for the  
9 last years.

10 C - NEED OF A REVISION OF RATES FOR WESTERN QUEBEC

11 15) As shown earlier, the economy of  
12 Western Quebec is almost entirely dependent on the  
13 wood industry. Our region is isolated from the rest of  
14 the province and the natural outlet for our wood  
15 products is Ontario. Furthermore, a raise of 100 per  
16 cent in freight rates since 1948, preferential rates  
17 granted to the Western Provinces, New Brunswick and  
18 other parts of Quebec, like the south shore region  
19 in a disadvantageous situation. Only a revision of  
20 rates can save the situation of the lumber market in  
21 our region.

22 16) It is obvious that the markets in  
23 Ontario and in Quebec formerly opened to our region  
24 is decreasing substantially in consideration of the  
25 present shipping rates and in a nearest future, quite  
26 many forest industries are facing the closing of their  
27 operations. This situation will certainly mean a  
28 decrease of traffic for the Railway Companies.

29 17) The provisions of the Maritime Freight  
30 Rates Act are also of deep concern to the producers





1  
2 of lumber in the Abitibi District. Under this  
3 legislation, the shippers of lumber in the Maritime  
4 Provinces are subsidized to the extent of 30 per  
5 cent of the rate factor applying on the haul east of  
6 Diamond and Levis, Quebec, and this preferential  
7 treatment is one further obstacle with which we have  
8 to contend in disposing of our product in Central  
9 Ontario and Quebec markets. For thirty years prior  
10 to July 1, 1957, the subsidy was 20 per cent; this  
11 had a distinct effect on our industry, and the  
12 situation has been aggravated with the advance in the  
13 subsidy to a 30 per cent level. This is just one  
14 more instance of the freight rate inequities that have  
15 increased the difficulties under which we are forced  
16 to operate in a highly competitive market.

17 18) It is our respectful submission that  
18 the above mentioned features should be given earnest  
19 consideration by your Commission, with a view to  
20 providing equitable treatment in the matter of freight  
21 rates for our industry.

22 Respectfully submitted,

23 WESTERN QUEBEC FORESTRY ASSOCIATION INC.

24 Lorenzo Turcotte, Val d'Or, President

25 Ls.-Ph. De Blois, f.e., Secretary-manager.  
26  
27  
28  
29  
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THE SECRETARY: We have also received from  
Mr. Hill, who is president of the Acadia-Atlantic  
Sugar Refineries Limited, a further submission which  
is in the nature of a rejoinder which he was asked to  
submit to this Commission, and he asks that it be  
taken into the record as read.





SUPPLEMENTAL BRIEF OF  
ACADIA-ATLANTIC SUGAR REFINERIES LIMITED

and its operating subsidiary  
ATLANTIC SUGAR REFINERIES LIMITED

On November 10, 1959, at Fredericton,  
New Brunswick, Atlantic Sugar Refineries Limited  
submitted a brief to the Royal Commission on Trans-  
portation. While this presentation to the Commis-  
sion grew out of the analysis of the problems of our  
own particular company operating in Saint John, the  
recommendation we put forward is for general appli-  
cation to all goods produced in the Atlantic provinces  
and destined for the markets of Central Canada or  
beyond.

On April 26, 1960, Canada and Dominion  
Sugar Company Limited likewise submitted a brief  
to the Commission. Mr. Hill, President of Atlantic  
Sugar, appeared before the Commission and requested  
an opportunity, after closer study of this brief, to  
submit a reply to it. To this the Chairman of the  
Commission kindly agreed and this supplementary brief  
embodies the further comment we wish to offer to the  
Commission in the light of the representations made  
to you in the Canada and Dominion brief.

The recommendation in our main submis-  
sion, briefly stated is for a toll-free one-way  
bridge for maritime produce to the threshold of  
central Canada markets. This proposal is funda-  
mental in its approach and would be relatively





1  
2 inexpensive. It should solve for all time the thorny  
3 age-old problem of maritime relations with the rest of  
4 Canada that has plagued our nation since Confederation.

5 Royal Commissions and national policy have  
6 struggled with this problem for decades. The Maritime  
7 Freight Rates Act has been directed towards a solution.

8 Briefly stated the Maritime Freight Rates  
9 Act abates the cost of transporting goods in and from  
10 the Atlantic Provinces by 20 per cent and 30 per cent  
11 respectively. In 1958 this cost the taxpayers of  
12 Canada about \$13 million. This, by now, particularly  
13 with the St. Lawrence Seaway, is inadequate for putting  
14 goods produced in the maritimes in a reasonably compe-  
15 petitive position in Central Canada markets. Further-  
16 more the Maritime Freight Rates Act is misdirected.  
17 It subsidizes the movement not only of goods produced  
18 in the maritimes but goods imported into the region  
19 in their movement therefrom to central Canada -- which  
20 is little if any help to maritime development. About  
21 55 per cent of the \$13 million cost of the Maritime  
22 Freight Rates Act in 1958 had no effect whatsoever in  
23 assisting the movement into central Canada of goods  
24 produced in the maritimes.

25 It was stated above that the present cost  
26 of the Maritime Freight Rates Act (1958 basis) was  
27 about \$13 million. This total amount resulted from  
28 a 30 per cent subsidy on goods moved out of the maritime  
29 area, which cost the treasury about \$5.85 million, and  
30 a 20 per cent subsidy on goods moved within the Atlantic





1  
2 region costing about \$7.15 million. Our proposal  
3 is that the 30 per cent subsidy on goods moving out be  
4 increased to 100 per cent. If this were done the  
5 subsidy on outward freight as a total would be \$19.5  
6 million (1958 basis) instead of \$5.85 million.  
7 That is to say our proposal would mean an additional  
8 cost under M.F.R.A. amounting to about \$13.65 million.  
9 We submit that this figure represents a very modest  
10 outlay of public funds to secure the economic benefits  
11 to the Atlantic provinces which would be bound to flow  
12 from such a policy.

13 It was in the light of these facts that our  
14 company proposed the simple and rational idea of a  
15 toll-free one-way bridge for maritime produce  
16 destined for points in Canada beyond the threshold.  
17 This, to us, seems eminently sensible and represents,  
18 we believe, an economical use of public funds in the  
19 broad policy of nation building.

20 This national policy of wiping out the  
21 effect of distance in Canada is not new. The Maritime  
22 Freight Rates Act already recognizes this principle.  
23 Today, as a result of statutory and related rates  
24 (growing out of the Crow's Nest Pass Agreements)  
25 railway rates for the rest of Canada bear about half  
26 the cost of moving grain from western Canada to export  
27 points. Our proposal merely represents the fair  
28 application of this to the situation of the chronic  
29 inability of the Atlantic provinces to share in the  
30 surge of economic growth enjoyed by the rest of Canada.





1  
2 Transport costs are the obstacle.

3 As the second largest manufacturer in the  
4 Atlantic provinces and the second largest customer of  
5 the railways in moving goods to central Canada we are  
6 deeply concerned with the outlook. Our fundamental  
7 problem very simply is to decide whether our company  
8 can maintain its present operations so far away from  
9 our principal market. We believe our problem typical  
10 of those of most of the secondary industry operating in  
11 the maritimes and, as well, of those who would be inclined  
12 to set up industrial operations in that area but for  
13 the unsatisfactory transport situation. This seemed to  
14 us to be the vital problem common to maritime industrial  
15 enterprise and this led us into proposing the simple  
16 and completely logical solution of the one-way toll-free  
17 bridge for maritime produce generally. The brief sub-  
18 mitted to you by Canada and Dominion Sugar Company  
19 Limited is directed against this general solution.  
20 We will now comment on this submission.

21 In the first place the Canada and Dominion  
22 brief is completely negative in its approach. It makes  
23 no positive recommendations and offers no solutions.  
24 It professes no interest whatsoever in the economic  
25 future of the maritime provinces. The objective  
26 of the submission was quite clearly and even bluntly  
27 stated by the Vice-President of the company, Mr.  
28 M. W. Davidson, before the Commission on April 26th.  
29 He said "We are mainly concerned with our company's  
30 competitive position . . .". This statement, it





1  
2 seems to us, throws up into sharp relief the very  
3 essence of the problem. The obvious purpose of this  
4 brief is to freeze Atlantic Sugar Refineries Limited in  
5 its present disadvantageous competitive position.

6 As we understand it, national policy,  
7 through the Maritime Freight Rates Act, is directed  
8 to the very end of improving the competitive position  
9 of maritime industry. If this is so then it seems  
10 scarcely good argument against such a policy to point  
11 up that the policy may be successful in improving  
12 this competitive position. It is the professed pur-  
13 pose of our brief to bring about competitive positions  
14 which will be fair to Atlantic industry. We are  
15 not seeking a privileged position.

16 Their presentation was addressed to two  
17 points in the submission of Atlantic Sugar Refineries  
18 Limited, namely:

- 19 1. that it is typical of maritime industry,  
20 and  
21 2. that it is operating under tremendous  
22 disadvantages in getting into the sub-  
23 stantial central Canada market and needs  
24 increased transportation subsidy as does  
25 maritime industry generally if it is to  
26 be competitive in that substantial central  
27 market.

28 Canada and Dominion Sugar Company Limited  
29 then proceeded to attack these submissions alleging  
30 that Atlantic Sugar Refineries Limited was neither





1  
2 (a) representative of maritime industry, nor (b)  
3 at any competitive disadvantage in the central Canada  
4 market in relation to Canada and Dominion Sugar Company  
5 Limited.

6 The problem that is typical of maritime  
7 industry is the cost of movement of its production  
8 into central Canada market on a competitive basis.  
9 Yet the answer cannot be that maritime industry  
10 should produce for maritime consumption only. In  
11 that event a wall would be of more value than a  
12 subsidy. Furthermore in many industries the com-  
13 petitive situation requires a larger volume of production  
14 than can be disposed of in the maritime market. Thus,  
15 a maritime sugar refinery producing merely to satisfy  
16 local demand would be uneconomic. Such a principle  
17 if forced on the maritimes through inadequate recog-  
18 nition of this maritimes problem would reduce the level  
19 of business and industry in the maritimes. Accordingly  
20 from whatever point of view the situation is studied,  
21 the basic problem remains -- namely, the necessity to  
22 get products of maritimes industry into the highly  
23 competitive markets of central Canada.

24 Atlantic Sugar Refineries Limited is  
25 typical of what maritime industry faces in this basic  
26 problem of getting into the central Canada market and its  
27 presentation on this point has been supported by  
28 maritime industry generally.

29 Dealing with point 2 -- Canada and Dominion  
30 Sugar Company submitted that Atlantic Sugar Refineries





1  
2 Limited at Saint John, New Brunswick (a) "Has certain  
3 distinct advantages of location" and (b) "Is now active-  
4 ly competitive in central Canada markets" and (c) "enjoys  
5 advantages in addition to freight over its central  
6 Canada competitors" (page 10298 Hearing).

7 We are told that Canada and Dominion Sugar  
8 Company Limited has two (2) cane refineries located  
9 in Montreal and Toronto -- two (2) beet factories  
10 located in Chatham and Wallaceburg, Ontario.

11 It is significant that no comparison of  
12 rail freight rates from Toronto or from Chatham and  
13 Wallaceburg to any of the seven larger centres is  
14 given. Montreal alone is used for comparative pur-  
15 poses, notwithstanding the location of other of the  
16 refineries of Canada and Dominion Sugar Company Limited  
17 closer to some of these seven larger cities.

18 In our submission this is not a proper basis  
19 of comparison. Rail freight advantage can only be  
20 determined by an examination of the actual rail rates  
21 in use or available. It is only proper that the re-  
22 finery at Toronto and the two beet factories at Chatham  
23 and Wallaceburg of Canada and Dominion Sugar Company  
24 Limited should be brought into any calculation of the  
25 competitive position of Atlantic Sugar Refineries  
26 Limited and Canada and Dominion Sugar Company Limited  
27 at any of these seven larger centres where such  
28 refinery or factory is located closer to the market at  
29 any of these points and is the logical shipping point  
30 from which refined sugar would be shipped to fill orders





received therefrom.

Here are the facts as to the actual not average rates available and in use in the movement of refined sugar on the basis that Ottawa, Montreal and Quebec are supplied from the Montreal refinery of Canada and Dominion Sugar Company Limited, and Windsor, London, Hamilton and Toronto are supplied from their Toronto refinery.

Memorandum Showing Rates on Sugar to Large Centres  
(using lowest available rates) Saint John Versus  
Montreal and Toronto

From	Saint John		Montreal		Toronto		Saint John Disad- vantage per 100 lbs.
	<u>Rate</u> ¢ per cwt	<u>CLM</u> lbs.	<u>Rate</u>	<u>CLM</u> lbs.	<u>Rate</u>	<u>CLM</u> lbs.	
Windsor, Ont.	60	100,000	-		*16	100,000	44¢
London, Ont.	#59	100,000	-		20	40,000	24¢
Hamilton, Ont.	42	100,000	-		10	100,000	32¢
Toronto, Ont.	38½	100,000	-		--		38½¢
Ottawa, Ont.	35	100,000	30	100,000			5
Montreal, Que.	24	100,000		--	--		24
Quebec, Que.	24	100,000	20	100,000			4

#Includes delivery equivalent to 15¢.

\*Wallaceburg, Ont. rate (Wallaceburg and Windsor take same rate from Montreal).

Tariff References  
C.N.Rys Tariff C.M. 195  
Agreed Charge No. 460  
Agreed Charge No. 203.





1  
2 It should be noted that the London-Windsor  
3 area could best be served from Chatham and Wallaceburg  
4 in which the Saint John disadvantage would increase  
5 over that shown in this table for such movement from  
6 Toronto.

7 The markets in Toronto and Montreal account  
8 for approximately 50 per cent of the refined sugar  
9 consumption in Canada. Mr. Davidson (at page 10336)  
10 agrees that these two markets are substantial. The  
11 disadvantage to Atlantic Sugar Refineries Limited, as  
12 appears above, on the lowest available rail rates to those  
13 two points in competition with the Toronto and Montreal  
14 refineries of Canada and Dominion Sugar Company Limited  
15 is 38½ cents and 24 cents respectively per 100 pounds  
16 of refined sugar shipped.

17 This method of shipping from the refineries at  
18 Montreal and Toronto offers to Canada and Dominion Sugar  
19 Company Limited the lowest rail freight rate in all  
20 cases. If in fact Canada and Dominion Sugar Company  
21 Limited chooses, in order to serve internal purposes  
22 of its own, to undertake to move refined sugar by rail  
23 from Montreal at rates higher than the agreed charges  
24 available and/or to serve these four Ontario points  
25 from Montreal rather than Toronto, then that is their  
26 choiceto make, but no statement of competitive dis-  
27 advantage in rail rates can be made by Canada and  
28 Dominion Sugar Company Limited based on such choice.  
29 It may be even more profitable for Canada and Dominion  
30 to proceed in this manner or it may better serve their





relationships with the beet growers of southwestern Ontario (as suggested by Mr. Wilson at pages 10351-10352 of the hearing in Ottawa on April 26th, 1960) but for whatever reason the company does not avail itself of the lower agreed charges from Montreal instead of Toronto, no comparison should be made on other than the lowest available rates from the refinery point closest to the market to be served where an assessment is being made of the competitive position of Atlantic Sugar Refineries Limited and Canada and Dominion Sugar Company Limited in the matter of rail rates on movements of refined sugar into points in the central Canada market.

It is estimated that the Toronto and Montreal markets account for 50 per cent of the Canadian refined sugar market and would amount to approximately 650 million pounds a year. The disadvantage in these two markets to Atlantic Sugar Refineries Limited as against Canada and Dominion Sugar Company Limited is  $38\frac{1}{2}$  cents and 24 cents respectively per 100 pounds of refined sugar sold in these two markets by Atlantic Sugar Refineries Limited.

#### Location Factors - So-called.

(1) Much is made by Mr. Davidson of what he calls location charges and these are intended to demonstrate the advantages of the geographic location enjoyed by Atlantic Sugar Refineries Limited and the extent of the disadvantage to Canada and Dominion Sugar Company Limited in its Montreal and Toronto locations on a comparative basis.





1  
2 Canada and Dominion Sugar Company Limited  
3 has attempted to move the Atlantic Sugar Refineries  
4 Limited operation to Montreal for its wage calculation  
5 without any regard to the practical aspects of a  
6 Montreal operation and the period of shut-down appar-  
7 ently a part of the Montreal operation.

8 (2) We shall now deal with another location factor  
9 stressed by Canada and Dominion Sugar Company Limited,  
10 namely that there is less ocean freight on raw sugar  
11 transport to Saint John than on such transport to  
12 Montreal and that the advantage to Saint John in this  
13 regard is 4 cents per 100 pounds to Montreal and 10 cents  
14 to 15 cents per 100 pounds to Toronto.

15 If the differential on the movement of raw  
16 sugar is 4 cents per 100 pounds to Montreal over  
17 Saint John, then there must be set off against this  
18 4 cents the cost of the movement of refined sugar  
19 from Saint John to Montreal. And that cost is 24  
20 cents per 100 pounds. It still leaves a tremendous  
21 disadvantage of 20 cents to Saint John on every 100  
22 pounds of refined sugar moved to Montreal. Montreal  
23 has no further freight cost in its Montreal market,  
24 for it converts this raw sugar at its Montreal re-  
25 finery and to the extent that it sells in this area,  
26 it enjoys 20 cents per 100 pounds of refined sugar over  
27 its competition from Saint John. Even if we deduct  
28 the 7 cents per 100 pounds of refined sugar described  
29 by Canada and Dominion Sugar Company as a handling  
30 charge in Montreal there is still a tremendous overall





1  
2 disadvantage to Saint John by reason of its refinery  
3 location and of the distance of its Montreal market  
4 from Saint John.

5 Canada and Dominion Sugar Company Limited  
6 refers to a local delivery charge from the refinery  
7 to the customer in Montreal equivalent to 7 cents per  
8 100 pounds of refined sugar and they quote this as  
9 being an extra cost in Montreal to the Montreal  
10 refinery in addition to the 18 cents per 100 pounds  
11 of refined sugar which is referred to as the location  
12 charges in Montreal. The story on the delivery situa-  
13 tion in Montreal is as follows:

14 Originally there was a 7 cents per 100  
15 pounds of refined sugar cartage charge in Montreal on  
16 refined sugar delivered to customers in that area.  
17 This 7 cents per 100 pounds was charged by all refiners  
18 and was paid by the customer. Then Atlantic Sugar  
19 Refineries Limited offered to customers in the Montreal  
20 area who had private sidings a delivery in 100,000-  
21 pound cars to their siding free of any such delivery  
22 charge. The Montreal refineries then offered free  
23 delivery on truck lots to customers who had a private  
24 siding. This situation prevailed for many years.  
25 About one year ago during a violent price war, every  
26 customer in Montreal received free delivery of refined  
27 sugar. In April of this year, Atlantic Sugar Re-  
28 fineries Limited reverted to its former practice.  
29 Today only customers with private sidings receive  
30 free delivery on 100,000-pound cars. In all other





1  
2 cases, a cartage charge is made.

3 In the years before 1959 when the Conference  
4 Line was operating under agreement with the British  
5 West Indies Sugar Producers' Association and raw  
6 sugar and transportation had to be bought as a parcel  
7 by the eastern sugar refiners, the differential  
8 was for some years 3 cents and in 1958 4 cents to  
9 Montreal over Saint John.

10 We are satisfied however that, certainly  
11 in the last year, there has been no advantage to Saint  
12 John as against Montreal in the movement of raw sugar  
13 to the respective refineries. The following infor-  
14 mation is provided in support of the above statement:

15 (a) On May 4, 1960, Atlantic Sugar Refineries  
16 Limited was offered a 5,000 ton cargo of  
17 Cubas (raw sugar) for May shipment with a  
18 Montreal option at the same price.

19 (b) Kerr Steamships, who are the agents for the  
20 Christensen Canadian African Lines, have  
21 reported as follows:

22 They are not soliciting sugar business  
23 from Mauritius or Natal to Saint John  
24 during the season when Montreal is  
25 open. If pressed to do so the best  
26 rate would be the same as Montreal and  
27 very likely they would require a diver-  
28 sion premium of about 2 shillings per  
29 ton (which is about 1½ cents per 100  
30 pounds.)





(c) In the last few days Atlantic Sugar Refineries Limited has discussed with a local broker the possible purchase of raw sugar from Mauritius. The quoted Saint John price was at a premium of  $1\frac{1}{2}$  cents per 100 pounds over Montreal if the vessel was to arrive during the period of open navigation on the St. Lawrence River.

(d) In 1959 vessels owned by Lamport and Holt carried sugar for Atlantic Sugar Refineries Limited and for St. Lawrence from British Guiana. Some of the rates paid were as follows:

<u>Destination</u>	<u>Month</u>	<u>Rate per 100 lbs.</u>
Saint John	May - 1959	32¢
Saint John	July 26th	30¢
Montreal	August 5th	30¢
Montreal	August 20th	30¢

(3) Two additional location factors and the penalty produced by reason of such location in Montreal as against Saint John are stressed by Canada and Dominion Sugar Company Limited in its brief. One such factor is called the winter raw sugar storage costs occasioned by the winter freeze-up and the necessity to accumulate raw sugar for this period. The cost of such is said to be 5.1 cents per 100 pounds of refined sugar sold and to represent a disadvantage of Montreal location vis-a-vis Saint John. However, as appears below the calculation of this alleged disadvantage is much too great and a more correct figure





1  
2 is .8 cents per 100 pounds.

3 Re Raw Sugar Storage: Policy for Saint  
4 John and most sugar refiners is to always have a large  
5 store of raw sugar on hand. This is advisable to allow  
6 mixing of various cargoes to supply a uniform melt  
7 quality and to have adequate stocks to continue opera-  
8 tions in event of marine disaster or delays in arrivals.  
9 This quantity is one month's supply minimum. It is true  
10 that Montreal is frozen in part of the year but during  
11 that period because of reduced demand -- beet sugar  
12 operations -- and maintenance and vacation shutdown  
13 the Montreal refiner operates only about two months of  
14 the shutdown period. Excess storage then at Montreal  
15 is probably about one month's supply -- or 16,000 tons.  
16 Applying this quantity to Canada and Dominion's own  
17 figures on page 10325, we obtain:

18  $5\% \times 60 \times 16,000 \times \frac{4}{12} = 16,000$

19  $6\% \times 60 \times 16,000 \times \frac{4}{12} = 19,200$

20  
21  $6\% \times 400,000 \times \frac{4}{12} = \underline{8,000}$

22  $35,200 = .8\text{¢ per 100 lbs.}$

23 It is also clear that the location of a refinery  
24 in Saint John, New Brunswick, as against the location of  
25 a refinery in Montreal and/or Toronto imposes additional  
26 warehousing costs for refined sugar storage on the Saint  
27 John refinery in order to take advantage of the cheaper  
28 rail freight rate available on movements of 100,000  
29 pound minimum cars of refined sugar and to maintain  
30 adequate delivery stocks at major market points. It





1  
2 appears to us that if actual experience in warehousing  
3 costs for storage of refined sugar was compared this dis-  
4 advantage to Saint John would become clearly apparent  
5 and might more than offset the alleged disadvantage  
6 to Montreal location.

7         The trend to bulk truck sugar and liquid sugar  
8 is developing rapidly. In the case of bulk truck  
9 sugar, Atlantic Sugar Refineries Limited must build  
10 special transfer facilities at both major distribution  
11 centres of Montreal and Toronto. In the case of  
12 bulk truck liquid sugar it is necessary to provide  
13 additional special transfer facilities plus absorbing  
14 an additional freight cost of at least 50 per cent due  
15 to water content plus maintaining a large fleet of bulk  
16 rail cars due to distance from these centres. Canada  
17 and Dominion Sugar Company with refineries in these  
18 major centres where the demand for such sugar exists  
19 has no such expenses.

20         In addition, Saint John location has the dis-  
21 advantage of freight costs on supplies and material  
22 which are only obtainable in central Canada and are  
23 consumed in the refinery at Saint John. Some of these  
24 items are -- all packaging materials -- all maintenance  
25 items and chemicals and additives.

26         At the end of Appendix "B" reference is  
27 made to the risk of loss by reason of the volatile world  
28 sugar market in the period of winter freeze-up so far  
29 as a Montreal refinery is concerned. What is said  
30 appears to be purely hypothetical. It would be more





1  
2 interesting and certainly more cogent if the actual  
3 buying experience at Saint John and Montreal in pur-  
4 chases of raw sugar over the period of a year were  
5 submitted for comparison. In any event, this is  
6 purely theoretical as Canada and Dominion Sugar Com-  
7 pany can and do buy raw sugar on an averaging basis,  
8 which means price prevailing at time of refining, thus  
9 eliminating any market risk.

10 (4) In Appendix "D" at page 10327 of the Hearing  
11 on April 26th a comparison in a very general sort of  
12 way is attempted in the field of municipal taxes at  
13 Saint John and Montreal. It would appear from infor-  
14 mation available to us that the actual school and  
15 municipal taxes paid by the Montreal refinery in 1959  
16 were of the order of \$87,000. We have omitted in this  
17 calculation any water and business tax for obvious  
18 reasons. The differential in municipal tax costs  
19 at the two locations is therefore certainly not sig-  
20 nificant.

21 The factors influencing the choice of loca-  
22 tion in Montreal and the subsequent choice for a  
23 second refinery in Toronto were in each case the location  
24 in the centre of a substantial refined sugar market which  
25 produced a most favourable differential in competition  
26 with a refinery located in Saint John, compelled to be  
27 competitive in the Montreal and Toronto areas. Assess-  
28 ment of the value of such locations in Toronto and  
29 Montreal as against Saint John must include not only  
30 the substantial freight disadvantage against Saint John





1  
2 in such markets but as well the other disadvantages  
3 to Saint John recited above.

4 Dealing, therefore, with the so-called lo-  
5 cation charges and the alleged disadvantage of Montreal  
6 location to the extent of 18 cents per 100 pounds of re-  
7 fined sugar as attempted to be demonstrated by Canada  
8 and Dominion Sugar Company Limited at the hearing in  
9 Ottawa on April 26, 1960, it is clear on the positive  
10 side that there is no disadvantage in Montreal location  
11 at this time so far as freight delivery of necessary  
12 supplies of raw sugar is concerned. It is clear too  
13 that the lower hourly basic wage rate said to exist  
14 in Saint John as against Montreal and Toronto does  
15 not produce any disadvantage in cost to such Montreal  
16 and Toronto operation for the reason that these opera-  
17 tions are carried on for less than a full year and the  
18 number of employees in these two locations is not  
19 greater than the number of employees at Saint John.  
20 The attempt to calculate the disadvantage of Montreal  
21 and Toronto location as against Saint John in the  
22 matter of the provision of raw sugar storage during  
23 the winter freeze-up and the excess of municipal taxes  
24 in these two cities as against Saint John does not  
25 appear to be arithmetically sound.

26 Furthermore, the 7-cent per 100 pounds  
27 handling charge said to be a charge in the Montreal  
28 area that must be absorbed by the Montreal refinery  
29 is no longer applicable as cartage is now charged  
30 on all refined sugar delivered in the Montreal area





1  
2 other than to private rail sidings minimum 100,000  
3 pounds.

4 The representative of Canada and Dominion  
5 has questioned the propriety of extending the subsidy  
6 under the Maritime Freight Rates Act to goods moving  
7 on competitive rates and agreed charges. This position  
8 is reaffirmed by Mr. Wilson, General Traffic Manager  
9 of that company, at Hearing (Volume 56, page 10355).

10 The approach of Canada and Dominion to this  
11 question of subsidy under M.F.R.A. shows a complete mis-  
12 conception of the purpose of the statute. The object  
13 of that statute was to put maritime industry in a  
14 reasonably competitive position in the central Canada  
15 markets and to relieve against the burden of trans-  
16 portation costs on the movement of products of maritime  
17 industry into central Canadian markets. It is, indeed,  
18 more broadly stated in the Duncan Report as follows:

19 "To afford to maritime merchants, traders  
20 and manufacturers the larger markets of  
21 the whole Canadian people instead of the  
22 restricted market of the maritimes them-  
23 selves---"

24 The recommendation of the Commission in the matter of  
25 freight rates was "for the purpose of removing a  
26 burden imposed on trade and commerce in those provinces  
27 (maritimes) since 1912 ---"

28 The obligation to provide such a subsidy in  
29 the circumstances was recognized as an obligation of  
30 all the people of Canada and therefore one that should





1  
2 be borne by the Dominion Government.

3 Canada and Dominion attempts to confuse this  
4 principle of subsidy and its payment by the federal  
5 authority with the matter of agreed charges.

6 Agreed charges are one means available to  
7 the railways of Canada to meet other carrier com-  
8 petition and to hold or obtain business. Agreed  
9 charges have no relationship to subsidy or M.F.R.A.  
10 They are a matter of contract between the railway and  
11 the shipper. Such agreed charge requires no approval  
12 by the Board of Transport. The objective of the  
13 railway is to ensure that it carries all, or practically  
14 all, the freight originated by the shipper in return  
15 for which it (the railway) offers an attractive rate.  
16 It is in effect a quantity discount.

17 Competitive rates must be approved by the  
18 Board of Transport and are related to other transportation  
19 rates. No authority, federal or otherwise, reimburse-  
20 ses the railway for the amount of any reduction implicit  
21 in agreed charges or competitive rates.

22 M.F.R.A. subsidy is a payment by the federal  
23 authority of a portion of the cost of freight on the  
24 movement of goods out of the maritimes on the con-  
25 ditions outlined in that statute. It is paid directly  
26 to the railway carrying the goods. Regardless of the  
27 rate on which such goods may move, competitive rates  
28 or agreed charges or otherwise, the subsidy is a por-  
29 tion of such cost of movement by rail out of the mari-  
30 times. The subsidy is to reduce the cost of such





1  
2 movement to the shipper and is not related to the  
3 rate whether competitive or agreed charge.

4 Obviously, the cost of subsidy to the federal  
5 authority is lower on competitive rates or agreed  
6 charges as it is a percentage of such rate. Whether  
7 or not M.F.R.A. subsidy is discriminatory and should  
8 be extended to other means of transportation of goods out  
9 of the maritimes is a separate question and its non-  
10 extension cannot be an argument against the principle  
11 of subsidy in transportation of goods out of the  
12 maritimes.

13 Canada and Dominion enjoys agreed charges  
14 in many places even on the movement of refined sugar  
15 from Montreal to Saint John. Canada and Dominion also  
16 enjoys the benefit of M.F.R.A. in the maritimes. It  
17 complains that it is required as a taxpayer to con-  
18 tribute to the cost of this subsidy through its taxes  
19 for the benefit of a competitor. Canada and Dominion  
20 forgets that Atlantic Sugar also pays income taxes and  
21 equally it could be said to contribute in its taxes to  
22 the total cost of this subsidy. Furthermore, under the  
23 Agricultural Stabilization Act, there is established  
24 a floor price on sugar beets with a subsidy paid by the  
25 federal authority to the growers by way of deficiency pay-  
26 ments when the return to the grower falls below the  
27 floor price. This is of great advantage to Canada and  
28 Dominion in its beet sugar operations. It is clearly  
29 a subsidy the benefit of which though directly enjoyed  
30 by the growers, reduces the cost of sugar to that company





1  
2 or enables that company to obtain sugar beets on a lower  
3 cost basis than otherwise such materials might be  
4 secured, if at all. Atlantic with equal fervor might  
5 say that it should not be called on through taxes to  
6 subsidize sugar beet growers for the benefit of its  
7 competitor -- Canada and Dominion.

8 Conclusion:

9 In the studied preparation and submission  
10 of our original brief to your Commission, Atlantic  
11 Sugar attempted to lay before you its very serious  
12 transportation problem -- not as a special plea for  
13 itself -- but instead as a typical example of the whole  
14 Atlantic Region problem. Our brief was presented  
15 as a responsible and constructive portrayal of this  
16 serious transportation and competitive problem facing  
17 all maritime shippers -- present and potential.

18 We stated that our firm was the second largest  
19 rail shipper of maritime product and that our total  
20 rail shipments of refined sugar, we understood, ex-  
21 ceeded the combined shipments of all other Canadian  
22 sugar refineries combined.

23 We attempted to assist your Commission in its  
24 effort to seek a solution of obviously inequitable  
25 situations by putting forward a recommendation which is  
26 fundamental in its approach -- is inexpensive -- work-  
27 able -- sensible -- and which would be in the national  
28 interest. We did not seek for our firm or for that  
29 vital economic segment of Canada in the Atlantic Region  
30 a privileged position.





1  
2 Your Commission gave us an excellent hearing  
3 in Fredericton. We were encouraged by your expres-  
4 sions of interest in our presentation and recom-  
5 mendation. We had not anticipated that a competitor  
6 would challenge the substance of our submission, nor did  
7 we expect that any attempt would be made to question  
8 the disadvantage of geographic location at Saint John  
9 vis-a-vis Montreal, particularly where the products  
10 of both locations were meeting in the Montreal markets  
11 and points further west. There is no doubt but that  
12 our competitors' brief was inspired by its own com-  
13 petitive aspirations but how our competitor managed  
14 for so long a time to keep secret even from us the  
15 astounding fact that, as it puts the matter, Saint  
16 John really enjoys a preferred position in the refined  
17 sugar market in Montreal to the disadvantage of the  
18 Montreal refiner, is beyond our understanding. A  
19 more fantastic approach or basis for comparison could  
20 not be made as we believe we have shown in our answer.

21 Our sugar competitor has purported to portray  
22 a competitive situation between two companies while in its  
23 presentation it has used only one plant location,  
24 namely Montreal, out of its four to determine its costs  
25 for shipping produce to all the markets of eastern  
26 Canada, and on this basis seriously proposing a plan  
27 for marketing refined sugar from Montreal beyond the  
28 doors of its Toronto refinery and its two beet sugar  
29 factories to various Ontario points.

30 It is ridiculous that it should present costs





1  
2 for Toronto distribution (the heart of Canada's sugar  
3 market) based on shipping costs from Montreal, when  
4 Toronto is that company's location for its newest and  
5 undoubtedly its most efficient refinery. It is this  
6 Toronto plant which when it was formally opened by Her  
7 Majesty the Queen in June, 1959 -- was described by that  
8 company as "the first major Ontario industry established  
9 expressly as a result of the St. Lawrence Seaway."

10 Also -- "Finest and most modern in Canada, the  
11 refinery is the first in North America in twenty-five  
12 years to be designed and equipped as a completely inte-  
13 grated unit. . . . The entire plant is highly auto-  
14 mated . . ."

15 Our competitor has stated that its two cane  
16 sugar refineries are in competition with its two beet  
17 sugar refineries. But all four of its plants have the  
18 same sales force -- the same traffic and warehouse  
19 facilities -- the same head office -- the one financial  
20 statement and stock ownership -- and, in fact, are fully  
21 integrated.

22 Some facts of life of the sugar refining busi-  
23 ness in eastern Canada will be of interest to the  
24 Commission and speak for themselves. Two cane sugar  
25 refineries operate in Montreal -- these are very pro-  
26 fitable operations and both plants have been ex-  
27 panded and modernized in recent years by heavy capital  
28 outlays. Two beet sugar plants operate in western  
29 Ontario -- both of these are reported to have been re-  
30 cently modernized at heavy expenditure. A highly





1  
2 efficient, modern and highly automated sugar refinery  
3 with low labour requirements was built and opened by  
4 Canada and Dominion Sugar Company in Toronto in 1959,  
5 at a cost of some \$15 million. Acadia-Atlantic  
6 Sugar have one cane refinery operating at Saint John,  
7 New Brunswick, while it has a large refinery situated  
8 on a fine plant site near Halifax but it has not  
9 operated this refinery for the past fourteen years  
10 solely for the reason of its disadvantageous com-  
11 petitive location. Thus while the five refineries  
12 located in the principal markets of Quebec and  
13 Ontario continue to flourish and expand -- one of  
14 the maritime refineries is inoperative while the other  
15 is plagued with this continuing problem of being com-  
16 petitive in the markets of central Canada where it must  
17 market 70 per cent of its production by reason of the  
18 cost of transportation thereto which cost must in the main  
19 be absorbed by Saint John.

20 It is also worthy of note that the basic pro-  
21 duction of the Quebec and Ontario plants is sold in  
22 these areas of dense population while the one operating  
23 maritime plant -- after filling the bulk of the Atlantic  
24 Region demand -- must move 70 per cent of its present  
25 output by long-haul rail freight to find markets in  
26 central Canada. Thus it will be seen that any sales  
27 and shipments of our competitors' product into the  
28 maritimes are in fact the movement of their top-end or  
29 surplus output.

30 No true Canadian should begrudge to the





1  
2 Atlantic provinces a fair share in the surge of  
3 economic growth enjoyed by the rest of Canada -- in-  
4 stead he realizes that it is vital to this country's  
5 sound future and growth that an effective stimulant  
6 be promptly applied to return the economy of the  
7 Atlantic region to a parity with the rest of the  
8 nation. A great expansion of industry in the mari-  
9 times resulting from a great expansion of investment  
10 and with a resultant large expansion of population  
11 is the essence of this economic requirement. Trans-  
12 portation does not itself produce industry. Trans-  
13 portation costs-- (which are an ever more important  
14 element of total cost) -- to move an industrial product  
15 to available markets -- is the really decisive key  
16 to industrial development and equally importantly to  
17 the retention of industry in a region. There are many  
18 who advocate -- as its economic solution -- a greater  
19 measure of industrialization for the maritime provinces.  
20 Few have carefully analysed the problem which prevents  
21 the attainment of this worthy objective. Transport  
22 costs are the obstacle.

23 We have now reached a situation in central  
24 Canada with the bringing into production of the Toronto  
25 refinery of Canada and Dominion Sugar Company where there  
26 is a substantial increase in the refining capacity of this  
27 central Canada area. Competition for this market will,  
28 therefore, be intensified and one disadvantage of  
29 location will, in an increasing way, force upon us a  
30 larger absorption of transportation costs to maintain





1  
2 our market position. If no correction is applied th  
3 time must come and quickly when the amount of such  
4 absorptions and the increasing disadvantages of  
5 location at Saint John will justify financially the  
6 establishment of refinery facilities closer to this  
7 central Canada market. This is not a unique position  
8 as other maritime industry must be similarly affected  
9 in their operations.

10 We again refer to the so-called bold and  
11 imaginative recommendation in our main submission,  
12 i.e., a toll-free one-way bridge for maritime produce  
13 to the threshold of central Canada markets. At  
14 relatively modest cost the expansion of industry --  
15 investment -- population and the upsurge of the  
16 economy -- all so desperately needed -- will be  
17 closer to a reality.

18 We respectfully submit this supplement to  
19 our main brief. Its length is dictated by the cir-  
20 cumstances. We are most anxious to assist your  
21 Commission by the presentation of facts and con-  
22 structive suggestion. We assure you that we stand  
23 prepared to supply any further evidence or material  
24 which we might have available and in which you might  
25 be interested in your important deliberations.

26 THE SECRETARY: We have a submission which is  
27 in the nature of additional information sent to us by the  
28 Quebec Lumber Manufacturers' Association, and I ask  
29 that the attached English interpretation be taken into  
30 the transcript as read.





THE QUEBEC LUMBER MANUFACTURERS' ASSOCIATION

5 Parloir Street,  
Quebec 4, P.Q.

Supplementary notes submitted to the  
Commissioners concerning the brief presented  
to the McTague Commission at Quebec, on  
October 22, 1959.

The first paragraph of our brief - presented  
as such - reads as follows:

"WHEREAS the revenues coming from the  
transport of grain by railways are reduced  
in virtue of preferential rates of the  
Crow's Nest Pass, to the extent that this  
railway traffic shows an adverse trade  
balance."

We presume that the Commission draws the same  
conclusion i.e., that with the established Crow's Nest  
Pass Rates, the transport of grain shows an adverse  
trade balance. We do not feel it is for us to prove  
this argument mathematically, because it is the concern  
of railway companies - and their statements are based  
on figures which they only have access to. Moreover,  
we do not pretend to oppose their statements and we  
are convinced that the Commissioners will make use  
of these companies' briefs to their full value. As far  
as we are concerned, philosophical considerations have  
brought us to the same conclusion.

It is by establishing comparison that one  
can judge facts. If one compares rates for the  
transport of a similar commodity under parallel  
conditions and, if one realizes the wide gaps in the  
prices charged for the transport on either side, two  
things can happen: exorbitant profits will be realized





1 by the one charging the higher price or no profit will  
2 be realized by the one charging lower prices to the  
3 point of working at a loss. We were never informed  
4 that American companies operating in the U.S.A. between  
5 Eureka, Mont., Bellinges, Mont., York, N.D., and  
6 Whately, Mont. as well as Kalispell, Mont., Shelby,  
7 Mont., Helena, Mont., Glasgow, Mont., and Seattle,  
8 Wash., to name but two, have ever realized exorbitant  
9 profits. On the other hand, one knows that the profit  
10 of a Canadian transport company is in the order of  
11 \$38,000,000 when the Transport Commission grants it the  
12 right to make a profit in the order of \$52,000,000,  
13 and that with a capital of \$1,440,000,000 and a gross  
14 revenue of \$500,000,000.

15 We also know that the two companies  
16 operating under parallel conditions must meet a price  
17 of operation based on 1960 costs in 1960, whereas the  
18 scale of charges to which they are entitled in 1960  
19 is of 1960 for the one and of 1899 for the other.

20 The grain traffic proportion in regard to  
21 the total traffic of commodities in Canada is such that  
22 its revenue influences directly and appreciably profits  
23 of transport companies.

24 On the other hand, grain transport is never  
25 taxed by demurrage which means that cars are held in  
26 terminal for a long time in the yard tracks. The  
27 quantity of cars so immobilized as well as the tracks  
28 serving as parking space represent a freezing capital  
29 of which, already, only the interests are significant.  
30





1  
2 To this must be added multiplied displacements and  
3 manipulation. All other commodities do not benefit  
4 by such privileges. If increased rates are charged  
5 for the transport of these other commodities and if  
6 penalty parking fees are added, it is that such  
7 measures proved to be necessary. The same evidence  
8 put forward for establishing revised rates for  
9 merchandise other than grain could have also been used  
10 when deciding on grain transport tariffs.

11 A different decision was adopted.  
12 Legislators thought it to be a good thing to grant  
13 special conditions for the transport of these  
14 commodities. We do not intend discussing the  
15 advisability of this measure, even less to judge it.  
16 However, results exist and we can note the effects.  
17 We now reach our conclusion - i.e., - that the income  
18 originating from the transport of grain by railway  
19 shows a loss.

20 The text of our second "WHEREAS" which  
21 reads as follows:

22 "WHEREAS revenues originating from  
23 transport by railways of commodities  
24 originating from the Maritimes are  
25 decreased in pursuance of the  
26 Maritime Freight Rates Act, to the  
27 point that this traffic shows a loss."

28 This text does not answer, in our opinion,  
29 the question and a drawing up (or preparation) made in  
30 haste due to delays gives a false impression of what  
we understand of the situation.

We simply wish to express the fact that





1  
2 some legislators thought it wise to grant shippers  
3 residing in the Maritime provinces reduced costs for  
4 the transport of their commodities in order to help  
5 their economic situation threatened by their  
6 geographical location. Subsidies are then given to  
7 railway companies to compensate the reduction of  
8 tariffs granted to shippers by the Maritime Freight  
9 Rates Act. Here we see a precedent. Our "WHEREAS"  
10 should have read as follows:

11 "WHEREAS the government pays certain  
12 subsidies to railway companies in order  
13 to enable them to transport traffic  
14 originating in the Maritimes at a  
15 reduced rate for shippers in pursuance  
16 of the Maritime Freight Rates Act, and  
17 we beg the Honourable Commissioners to  
18 be so kind as to take note of this new  
19 text."

20  
21 Our third and fourth "WHEREAS" read as  
22 follows:

23 "WHEREAS railway companies are forced  
24 to increase tariffs on transport in  
25 other places and/or for other  
26 commodities in order to obtain the  
27 necessary funds so that our railway  
28 system functions properly."

29 "WHEREAS the transport of sawed wood  
30 represents a high percentage of the  
total volume of transport of  
merchandise by railways, in the  
Province of Quebec."

These are directly connected to our first  
and our second requests which read, respectively, as  
follows:

"It is requested that federal subsidies  
from the Treasury make up for the  
deficits incurred by the transport of  
commodities on which preferential  
tariffs have been bestowed."





1  
2 "It is requested that tariffs for  
3 sawed wood transport in the Province  
4 of Quebec be relieved of additional  
5 premiums made necessary by the  
6 transport of certain merchandise on a  
7 deficiency basis."

8 Having concluded that railway companies  
9 make a certain profit in spite of the unfavourable  
10 position they find themselves in by virtue of the Crow's  
11 Nest Pass Rates Act, one must believe that these  
12 profits are realized by tariffs set too high and  
13 charged to other commodities which are transported,  
14 such as wood. We request, therefore, the Commission  
15 to recommend that tariffs for the transport of sawed  
16 wood in the Province of Quebec be relieved of  
17 surcharges in view of a compensation for reduced profits  
18 by grain transport at reduced costs. We request that  
19 subsidies originating from the Federal Treasury be  
20 paid to railway companies and that a precedent already  
21 expressed be repeated.

22 Our fifth "WHEREAS" reads as follows:

23 "WHEREAS wood trade - source of income  
24 for several millions of people - is  
25 greatly influenced by the cost of  
26 transport."

27 It emphasizes that the Province of Quebec  
28 produces wood for sawing worth over \$70,000,000  
29 annually. This commodity is therefore important to  
30 the economy of the Province. As the matter deals  
31 with goods delivered on a competitive market, all  
32 factors affecting its cost price must be considered  
33 according to their percentage and in the case of  
34 transportation, this percentage can go beyond 20 per





1  
2 cent. It is therefore the cost of transport alone  
3 which will determine the opportunity or impossibility  
4 of this industry's survival.

5 Our third request reads as follows:

6 "It is also requested that railway  
7 tariffs for the transport of wood be  
8 established and guaranteed for a  
9 period of no less than 6 months, in  
10 view of the fact that sawing wood  
11 industry has a cycle of one year  
12 varying between 6 months and one year  
13 in order to assure an indispensable  
14 stability to that industry."

15 The railway tariffs are fixed for a period  
16 of approximately 6 months, whereas the cycle of wood  
17 production covers a period of 6 months to one year.  
18 This means that the maximum period of guarantee of a  
19 tariff barely reaches the minimum duration of a period  
20 of enterprise. It is with difficulty that the  
21 producers then can establish their selling price in  
22 advance as they cannot be certain of their cost of  
23 production. In many cases, this situation leaves  
24 them with the choice of either loss of sale or loss of  
25 money on a concluded sale.

26 Our fourth request which reads as follows:

27 "It is requested that in the case  
28 of railway branch lines leading to  
29 a dead end, tariffs for the last  
30 miles of the branch line remain  
the same as for the last complete  
zone when the distance from the  
last point of tariff change to the  
end of the line does not exceed 20  
per cent of the average length of  
tariff zones."

This last request may seem out of place.

We are simply taking advantage of this opportunity





1  
2 given to us to appear before the Commission in order  
3 to ask the Commission in its recommendations to request  
4 the railway companies to establish preferential tariffs  
5 for the last portions of dead-end lines. This is  
6 so that certain shippers may compete with other  
7 producers of a same region whereas for the few last  
8 miles of a branch line a higher tariff is applied.  
9 In many cases, cars sent by producers living this side  
10 of the last change of tariff must go to the end of the  
11 branch line before being directed towards this ultimate  
12 destination.

13 We have, however, been advised that certain  
14 revised tariffs have been granted since our brief was  
15 presented in October, 1959.  
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1  
2 THE SECRETARY: That concludes the filings.

3 THE CHAIRMAN: Mr. Burbidge?

4 MR. BURBIDGE: There were, Mr. Chairman, a  
5 number of matters arising at the previous hearing  
6 on which we were requested to supply information. The  
7 first was a request made of Mr. Crump by Mr. Dickson,  
8 to be found in Volume 27, pages 3991, 3992 and 4001,  
9 requesting some comparative figures on employees  
10 and expenses and gross ton miles for 1947 and 1959.  
11 That information has been prepared and I shall file it.  
12 I think the next exhibit is 150.

13 THE SECRETARY: That is correct.

14 ---EXHIBIT NO. 150: Document containing comparative  
15 figures of employees and ex-  
16 penses and gross ton miles,  
17 1947-1959.

18 MR. BURBIDGE: The next matter is a question  
19 asked of Mr. Edwards by Mr. Mauro, to be found in  
20 Volume 71, page 12585, where Mr. Mauro asks Dr.  
21 Edwards:

22 "Could you tell us what percentage of total  
23 carloadings grain represents?"

24 And Dr. Edwards said:

25 "I am afraid we will have to obtain that  
26 for you, Mr. Mauro."

27 This is the information in so far as Canadian Pacific  
28 is concerned:

29 Total revenue carloadings, including l.c.l.,  
30 1958, 1,320,625. Study traffic carloadings, 168,539;  
and the percentage that study traffic is of total





1  
2 carloadings, 12.8.

3 Now, in Volume 79 at pages 13923 and 13924,  
4 when Mr. Sinclair was cross-examining Mr. Hughes, there  
5 was mention made that in the transcript reference  
6 had been made to the trucking of domestic grain, and  
7 Mr. Sinclair said he would look it up and give Mr.  
8 Platt and the Chairman the references that were men-  
9 tioned had been made, and you will find them in  
10 Volume 14, page 1849, which is the cross-examination of  
11 Mr. Edsforth by Mr. Hume, and he says there:

12 ". . . I do not think we ran into very  
13 heavy trucking competition in the West.  
14 There is some, I will agree, from nearby  
15 points on short hauls. There may be  
16 some trucking into the milling elevators."

17 Then Mr. Hume asked him:

18 "What do you call a short haul, sir?"

19 And Mr. Edsforth replied:

20 "That is a sort of relative thing, but I  
21 would say within, say, a radius of 50  
22 or 75 miles -- maybe even a little  
23 longer."

24 The last matter to which I wish to speak is with  
25 respect to a memorandum on taxes, on which, you will  
26 recall, Mr. Sinclair agreed he would supply infor-  
27 mation. The reference is in volume 69, page 12147, and  
28 all I wish to say is that that memorandum is in pro-  
29 cess of preparation and will be filed shortly.

30 There is one further matter which Mr. Sinclair





1  
2 wishes to speak to.

3 MR. SINCLAIR: Mr. Chairman, Commissioners,  
4 in Volume 74 -- Dr. Edwards giving evidence -- Com-  
5 missioner Gobeil raised with him the per cent  
6 in which variable cost of grain was to total cost of moving  
7 grain CN and CP as compared with the variable cost of  
8 total cost for movement of grain in the United States  
9 as shown by the United States burden study. The  
10 transcript indicates, at page 13119, that the relation-  
11 ship according to Dr. Gobeil would be 76 per cent in  
12 Canada, according to the transcript. Arithmetically,  
13 that figure, both for CN and CP, is 72 per cent. I  
14 think this is a misprint, because Dr. Gobeil was working  
15 from the cost study, and that should, I think, be  
16 72 per cent.

17 The questioning by Dr. Gobeil of Dr.  
18 Edwards continues, and he makes reference to the fact  
19 that in the United States the relationship of variable  
20 to total cost for grain is 60 per cent. If you look  
21 at the United States burden study it shows that the  
22 relationship is not 60 per cent; it is .66, and there  
23 is, too, .7 and for a floor it is .73 as compared with  
24 the Canadian -- both CN and CP -- of .72.

25 Dr. Edwards has requested me to draw the  
26 attention of Dr. Gobeil and the Commission to the  
27 substantial differences between the Canadian and United  
28 States experiences disclosed in these relationships or  
29 ratios when account is taken of the fact that grain and  
30 grain products at statutory and related rates.





1  
2 is complex and includes wheat, oats, barley and flour,  
3 and the relationship of variable to fully distributed  
4 or total cost would, of course, be greater in some of  
5 these instances.

6 Dr. Edwards also requested that I draw the  
7 attention of Dr. Gobeil and the Commission to something  
8 which he considers to be extremely important, and that  
9 is that in the burden study and in the cost study there  
10 are differences that explain the grain ratios, which  
11 is really the basis of the question put by Dr. Gobeil.

12 Then, he asked me to draw to the attention  
13 of the Commission these differences: First, that the  
14 variable cost in the Canadian National and Canadian  
15 Pacific grain cost studies included the cost of solely  
16 related traffic, whereas those are not included in  
17 the United States study.

18 The second major point he asked me to draw  
19 to the Commission's attention was that the constant  
20 cost in the Canadian National and Canadian Pacific  
21 study is arrived at in relation to a proration of  
22 variable costs of the study traffic to total variable  
23 cost, while in the United States that ratio is  
24 developed on a ton-and-ton-mile basis. The effect,  
25 of course, is in the Canadian study -- the Canadian  
26 National and Canadian Pacific studies -- in the relief  
27 of the portion of constant cost that would have  
28 been chargeable had the ton-and-ton-mile basis been  
29 included.

30 Further in relation to this he wished me to





1  
2 draw to the attention of the Commission that, under the  
3 Canadian study, it was made clear in their presentation that  
4 the passenger deficit was not included as a part of  
5 the cost that was prorated to grain traffic. In the  
6 United States this is a part of the constant cost of  
7 grain.

8 The relationship of these matters, Dr.  
9 Edwards says, is the reason for what is an apparent  
10 difference in the percentage of variable to total cost  
11 on the movement of grain and grain products.

12 I think that covers the points that he raised.  
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1 MR. FRAWLEY: This explanation of Dr. Edwards'  
2 evidence this morning through the mouth of my friend  
3 Mr. Sinclair is very interesting. It will appear  
4 in the transcript and will be brought to the attention  
5 of those consultants who are working on costs for the  
6 provinces, and will probably receive the comments that  
7 they deserve.

8 THE CHAIRMAN: We would expect that.

9 COMMISSIONER GOBEIL: You say in Canada that  
10 the passenger cost is---

11 MR. SINCLAIR: In the United States the  
12 passenger deficit is carried over and prorated in the  
13 burden study.

14 COMMISSIONER GOBEIL: So if in the United  
15 States it was done like in Canada it would be a lower  
16 rate.

17 MR. SINCLAR: The constant cost would there-  
18 fore fall and the percentage of durable to constant  
19 would necessarily mathematically fall, yes sir.

20 COMMISSIONER GOBEIL: Thank you.

21 MR. McDONALD: Mr. Chairman and Commissioners,  
22 there is one point which I would like to speak on.  
23 In volume 75 at page 13196, when Mr. Cumming was cross-  
24 examining Mr. Bandeen, he asked for a summary of the  
25 related branch lines which would remain uneconomic at  
26 various stated average revenues per ton mile for  
27 grain and grain products, and I would like to put in  
28 a statement giving that information, which will be  
29 Exhibit 151, and here are some copies for the Commission.  
30





Brownlee, dir-ex.  
(Hunter)

1 --- EXHIBIT NO. 151: Summary of related  
2 branch lines for grain  
3 and grain products.

4 MR. McDONALD: That is all I have, Mr. Chairman.

5 THE CHAIRMAN: Mr. Hunter, Q.C. of Winnipeg  
6 will be dealing with the U.G.G.

7 MR. HUNTER: Mr. Chairman and Commissioners, the  
8 U.G.G. brief will be presented by Mr. Brownlee, and  
9 with your permission I would like Mr. Brownlee to take  
10 over.

11 J.E. BROWNLEE, called.

12 MR. HUNTER: Mr. Chairman, I propose to cover  
13 very briefly Mr. Brownlee's qualifications, although I  
14 realize that they are well known to you, sir.

15 MR. SINCLAIR: They are well known to everybody.

16 THE CHAIRMAN: Oh yes. Mr. Brownlee is regarded  
17 as one of our great Canadians.

18 MR. FRAWLEY: And known in a very peculiar and  
19 personal way to me, sir.

20 MR. SINCLAIR: We will agree that he is most  
21 eminently qualified.

22 MR. HUNTER: Thank you very much, Mr. Sinclair.

23 THE CHAIRMAN: It is unanimous.

24 DIRECT EXAMINATION BY MR. HUNTER:

25 Q. Mr. Brownlee, you have your submission which  
26 I believe is in two sections?

27 A. Just a minute; I would like to say that I am  
28 associated---

29 Q. This submission that is being presented  
30 was prepared by the United Grain Growers, and I believe





1 you were directly associated with Mr. Griffin in the  
2 preparation of it?

3 A. Mr. Chairman and Commissioners, I would  
4 like to say for your information that I have had  
5 associated with me in the preparation of this brief  
6 Mr. H.L. Griffin, and for your information I will say  
7 that Mr. Griffin was a graduate in political economy  
8 from the Toronto University in 1908, and a gold  
9 medallist, and went west immediately after his---

10 THE CHAIRMAN: He is well known.

11 THE WITNESS: And he has been the economist  
12 to the Grain Growers since 1928, and I say that because  
13 I may ask him to help me a bit during the course of my  
14 presentation.

15 MR. HUNTER: Mr. Chairman, the submission  
16 is in two sections; one the main submission and the other  
17 the supplementary submission and I believe -- is it  
18 meets your approval -- that we will ask that the sub-  
19 missions be taken as read, and there will be a few  
20 points where we would like to expand, so that if Mr.  
21 Brownlee could be referred to those particular points---

22 THE CHAIRMAN: Yes, you carry on.

23 MR. HUNTER: Then the Reporter can pick up  
24 the interjections.

25 MR. HUME: May I ask, Mr. Hunter, whether  
26 or not the revised submission is the entire submission?  
27 You referred to a supplementary submission and I don't  
28 have a copy of that.

29 MR. HUNTER: The supplementary submission was  
30 dealing with branch line problems.





Brownlee, dir-ex.  
(Hunter)

1 MR. HUME: I haven't received that.

2 MR. HUNTER: We have additional copies.

3 MR. HUME: Thank you very much.

4 MR. HUNTER: Q. Well, Mr. Brownlee---

5 A. Mr. Chairman, with your permission,  
6 appreciating your desire to expedite the hearing and  
7 realizing that much of what we have to say has been  
8 presented to your Commission before, I would like to  
9 just run over our brief, possibly in some places reading  
10 a bit, and then leaving the rest to be copied into the  
11 record. I would like to do that, sir.

12 Now, that being the case, I would like to  
13 just read the first page by way of introduction.

14 Mr. Chairman and Commissioners: The appoint-  
15 ment of your Commission to inquire into railway problems  
16 was a matter of satisfaction to the farming community  
17 of the Prairie Provinces. It was particularly a matter  
18 of satisfaction to United Grain Growers Limited and  
19 its 60,000 members and customers who operate farms  
20 across the Prairies. As Canada's pioneer producers'  
21 co-operative, the company has been part and parcel of  
22 the farm movement of Western Canada for over half a  
23 century. It has witnessed much of the settlement and  
24 subsequent development of agriculture in the West.  
25 With grain elevators at some 700 points, from the Peace  
26 River block to south-eastern Manitoba, it can reason-  
27 ably claim that its membership reflects the thinking  
28 of the farm population of Western Canada.

29 In November, 1958, delegates to the annual  
30 meeting of this Company expressed grave concern over





1 application of the railways for further sharp increases  
2 in freight rates in order to meet demands for higher  
3 railway wages. They expressed the opinion that continua-  
4 tion of increases in freight rates offered no solution to  
5 the problems of the two railway companies, pointing out  
6 that each increase drives business to competing types  
7 of transportation, thus cutting down the volume of railway  
8 business and increasing the difficulty of meeting wage  
9 demands. They therefore urged the Government of Canada  
10 to appoint a competent tribunal to make a far-reaching  
11 inquiry into present methods of railway operation,  
12 including sources of revenue and earnings, operating  
13 expenses and all cost factors and the extent to which  
14 the latter might be reduced, either by pooling of traffic  
15 or by other improvements in efficiency. They asked that  
16 pending such exhaustive inquiry further freight rate  
17 increases be avoided.

18 Their resolution is quoted in full in  
19 Appendix A.

20 There is good reason for the interest of  
21 prairie farmers in this inquiry. No industry in  
22 Canada depends more upon railway transportation than  
23 does theirs; no group of farmers in the world relies  
24 more upon railways; no other group is separated from  
25 a primary market by so great a distance. Prairie  
26 agriculture came into being when railway service was  
27 provided; without railway service grain growing in  
28 Western Canada for the export market cannot survive.  
29 For the foreseeable future grain growing for export  
30 must continue as the basis of prairie agriculture and





1 as the essential foundation of prairie economy.

2 We are impressed both by the magnitude and  
3 by the importance of your Commission's task. This may  
4 well prove to be one of the most significant and most  
5 fruitful inquiries ever undertaken in Canada. Its  
6 outcome may affect the whole future of transportation  
7 in this country. The Commission is to be commended  
8 for carrying its hearings across Canada and for the fact  
9 that in addition to receiving representations it is  
10 conducting extensive inquiries through its own staff  
11 and technical advisers.

12 Recovery in the economy of Canada is now  
13 to be seen from conditions of recession which prevailed  
14 when the railways made their application for rate  
15 increases which was to result in the appointment of this  
16 Commission. So far, such recovery is only partial;  
17 difficulties still prevail in some industries, especially  
18 agriculture, oil and mining. Also, the full effect is  
19 yet to be experienced from great capital investments made  
20 in many industries during recent years. As the Commission  
21 proceeds it may find in such facts reason for hope that  
22 railway problems are not beyond solution and that the  
23 worst of them may be solved by an increase in the volume  
24 of freight business arising from an expanding economy.

25 Q. Mr. Brownlee, did you wish to add any-  
26 thing to that paragraph in view of the fact that this  
27 was written some time ago?

28 A. I would like to say that the paragraph  
29 I just read was prepared months ago, and since then I  
30 have seen various expressions of opinion as to the





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TORONTO, ONTARIO

Brownlee, dir-ex.  
(Hunter)

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1 present state of the general economy of Canada and the  
2 outlook for the immediate future, and I wouldn't venture  
3 a forecast as to the outlook for any definite period,  
4 but I do share the confidence of those people who believe  
5 that further large expansion of the Canadian economy is  
6 to be expected and will continue with the growth of the  
7 country's population.

8 The main purpose of the appearance of United  
9 Grain Growers Limited at this time is to oppose any  
10 interference in the present status of the Crowsnest Pass  
11 rates.

12 There are basic and primary problems faced  
13 by the railways much more serious and significant than  
14 the consideration of any one commodity rate. For that  
15 reason, from the first meeting of this Commission  
16 western farm organizations have protested against attempts  
17 to single out the Crowsnest Pass rates for study as the  
18 only source of railway problems.

19 Delegates to the Company's Annual Meeting  
20 in November 1959, taking note of certain statements  
21 made before the Commission at the commencement of its  
22 public hearings, passed a resolution protesting the  
23 attempt to single out the Crowsnest Pass rates as the  
24 only problem affecting railway operations, or to make  
25 these rates a subject of exhaustive study and examina-  
26 tion apart from other phases of railway operation. That  
27 resolution is also quoted in Appendix "A".

28 We were, therefore, pleased when your  
29 Commission indicated that your inquiry would be a full  
30 and a complete one. It is true, however, that throughout





1 Western Canada farmers still protest the continued  
2 efforts of the railways to make these rates the principal,  
3 if not the exclusive subject of study by your  
4 Commission, and they view these efforts with the  
5 greatest suspicion.

6 SECTION 11 - RAILWAY PROBLEMS GENERALLY

7 Primarily the problems of the  
8 railways stem from the revolution in transportation of  
9 persons and goods due to the developing use of the  
10 automobile, the truck and the aeroplane, and to a  
11 lesser extent the pipeline.

12 When our company was first organ-  
13 ized, the great majority of persons travelling more  
14 than ten or fifteen miles did so by passenger train.  
15 Freight trains conveyed the great bulk of goods for  
16 haulage of more than a similar distance. Today, the  
17 automobile throngs the highways on roadbeds constantly  
18 being improved and developed at the expense of the  
19 State. Similarly, each day and night sees vans and  
20 trucks of ever increasing size conveying goods which  
21 formerly were carried only by the railways. Overhead,  
22 planes are steadily improving comfort, speed and fre-  
23 quency of travel, transporting people over longer  
24 distances with no cost of roadbed and with the benefit  
25 of terminal facilities provided by the State. The  
26 results of these developments have made serious inroads  
27 into railway traffic.

28 This revolution has resulted in a  
29 serious decline in passenger and freight traffic, during  
30





1  
2 a period of great expansion in the economy of Canada.  
3 This major problem is not peculiar to Canada. The  
4 same causes have led to similar results in the United  
5 States, as well as in Europe. In Great Britain, under  
6 a Labor Government, it was thought necessary to nation-  
7 alize the railways, and no change was subsequently made  
8 by the incoming Conservative Government. In these  
9 proceedings reference has been made to serious losses  
10 still being incurred annually by railways in that country.

11 Q. Are you attributing the loss to which you  
12 refer to the nationalization of the railways?

13 A. No, I am not making any such inference;  
14 I am simply pointing out here what I believe to be the  
15 case, that there has been in fact a revolution in the  
16 transport of goods and services not confined to this  
17 country, and that that revolution is the basic cause  
18 of the railway problems today in Canada, and that the  
19 cause of their difficulties is not confined with respect  
20 to any one commodity, and our brief is designed with  
21 that fundamental principle in mind.

22 The January copy of "Railway Digest" a  
23 publication of the Association of American Railroads,  
24 page 10, has this to say: "Despite the investment of  
25 over 14 billion dollars in capital improvement since  
26 the end of World War 11, railroads in 1958 ranked at  
27 the bottom among 65 major industries in comparison of  
28 earnings based on that asset. Last year the railroads'  
29 rate of return on net investment was 2.76% and the  
30 nineteen major lines operated in the red. Even in





1  
2 their BEST post-war year, railroad earnings have not  
3 been as good as any other major industrial group  
4 recorded in its WORST year."

5 In the absence of complaint about grain rates,  
6 the Association of American Railroads in this pub-  
7 lication cites "Feather-bedding" as the major cause  
8 of the railroads' difficulties.

9 To keep the subject in proper perspective,  
10 mention is now made of some of the railway problems  
11 and causes of problems:

12 (1) Railway Transportation - A Shrinking Business

13 One fundamental railway problem, and one  
14 often found when an enterprise is in difficulty, is in  
15 lack of volume of business. For reasons already  
16 stated railway transportation is a shrinking business,  
17 definitely so as to some items of traffic, and relat-  
18 ively so when set against Canadian progress in other  
19 fields. A few figures taken from railway reports will  
20 illustrate the situation.

21 (a) In 1923 Canadian Pacific Railway  
22 carried 14,529,907 passengers. In  
23 1931, in the depth of the Depression,  
24 the number was down to 9,442,230. By  
25 1948 the number of passengers was back  
26 to 13,600,000, while in 1958 it was  
27 only 7,700,000. C.P.R. passenger train  
28 mileage in 1923 was 20,806,470; in 1931  
29 it was 19,692,785; in 1948, 20 million  
30 miles and in 1958, 16 million miles.





1  
2 Passenger traffic in 1958 was much less  
3 than one-third of what it would have been  
4 had it kept pace with the 75 per cent  
5 increase in population from 1923.

6 (b) In 1948 less-than-carload freight ship-  
7 ments by Canadian Pacific amounted to  
8 1,595,000 tons; in 1958 to only 557,000  
9 tons, little over one-third of the total  
10 ten years before.

11 (c) In 1948 Canadian Pacific moved 60 million  
12 tons of revenue freight; in 1958 some  
13 54 million tons. This is a decline of  
14 10% during a decade which saw an enormous  
15 increase in general economic activity in  
16 Canada.

17 (d) The average freight revenue haul on the  
18 C.P.R. in 1948 was 420 miles and in 1958  
19 was 494.3 miles. On that account,  
20 although the number of tons moved de-  
21 clined, there was an increase in the ton  
22 miles of traffic. That seems to indicate  
23 that the shrinkage had been mainly in  
24 short-haul business. Incidentally,  
25 it also illustrates the fact that ton-  
26 mile statistics should be read with  
27 caution.

28 Q. Have you any explanatory statement in  
29 regard to that, to the ton mile statistics?

30 A. I would like to say this, Mr. Hunter,





1  
2 that in our judgment export grain traffic is presented  
3 in an unfavourable light when comparisons of the revenue  
4 it yields is made with other commodities on a ton mile  
5 basis. The comparison is much less unfavourable to  
6 grain if it is made on the basis of revenue per car  
7 mile or per train mile, since such comparisons reflect  
8 the heavy loadings of cars and trains carrying western  
9 grain.

10 For example, the annual report of Canadian  
11 Pacific for 1959 at page 39, it shows average revenue  
12 for freight train mile as \$15.05 with an average of  
13 only 30.6 loaded freight cars and 15.8 empties, or  
14 comparatively short trains. A train load of one  
15 hundred cars of grain -- or if you wish to say eighty --  
16 will contain upwards of 5,000 tons or 4,000 tons, as  
17 the case may be, which at one half cent per ton mile  
18 would give a revenue of \$25 a mile as compared with  
19 the average which is quoted. Such a train on a haul  
20 of 1,000 miles -- which is easily possible -- would  
21 yield a total revenue of \$25,000 or, with eighty cars,  
22 \$20,000.

23 I personally find it very hard to believe  
24 that the railways are losing money on the movement  
25 of a train load car where the revenue is from \$20,000  
26 to \$25,000, and when it is suggested that the rate be  
27 doubled, then you would have a train revenue of upwards  
28 of \$40,000 to \$50,000, and I personally can't see the  
29 conclusion.  
30





1 In this connection attention may be called  
2 to the following extract from the evidence of Mr.  
3 Donald Gordon, C.M.G. before the Sessional Committee  
4 on Railways, Airlines and Shipping on Monday, March  
5 28th, 1960, as reported in volume 1 of the minutes  
6 of proceedings and evidence. He said:

7 "Despite the growth of 5 per cent  
8 in the gross national product, our revenue  
9 ton miles increased by only 1.3 per cent.  
10 The simple fact of the matter is that the  
11 C.N.R. in common with all railways, is  
12 obtaining a smaller share of the over-all  
13 transportation market.

14 In 1958, the last year for which  
15 the Dominion Bureau of Statistics data  
16 are available, all railways' share of  
17 total inter-city revenue ton-miles in  
18 Canada amounted to 52 per cent. The  
19 striking contrast is evident when you  
20 consider that in 1948 the corresponding  
21 figure was 71 per cent. Between the same  
22 two years, Canadian National's share of  
23 the total inter-city freight market  
24 declined by about the same proportion."

25 At page 26 Mr. Gordon refers to the  
26 drastic reduction in railroad passenger traffic as  
27 follows:  
28

29 "We have in mind, in particular the  
30 steady growth of new and better





1  
2 highways and the fact that the private  
3 automobile already provides over 85  
4 per cent of the inter-city passenger miles  
5 which leaves but 15 per cent to be  
6 divided between air, rail and bus."

7 (2) Competition in Railway Service.

8 Competition divides between the two  
9 Canadian railway systems a great deal of business  
10 which could be more cheaply handled by one of them.  
11 That fact is obvious to a traveller who sees rival  
12 passenger trains leaving the same city, and often the  
13 same station, at practically the same hour to reach the  
14 same destination in about the same time. It is  
15 apparent when from a train window parallel tracks of  
16 another railway are observed only a short distance  
17 away, and frequently a competing train, also only  
18 partly occupied. This situation impresses strongly a  
19 passenger from Toronto to the prairies or one enroute  
20 through the Fraser Valley to Vancouver.

21 Competition is part of the Canadian tradition  
22 and between railways has been deliberately encouraged.  
23 Nevertheless competition between railways may now  
24 have become unnecessary because of the growth of  
25 alternative methods of transportation. It may also  
26 have become so costly that it must be restrained for  
27 the future. Only in North America are there competing  
28 railways. Elsewhere in the world railways are  
29 monopolies of government.  
30





1  
2 (3) Competition between Private and Public  
3 Ownership.

4 If competition between railways is confined to  
5 North America, competition between a publicly-owned and  
6 a privately-owned system is uniquely found in Canada.  
7 That did not arise as a matter of deliberate intent,  
8 it arose rather from incorporation into Canadian  
9 National Railways of lines formerly in private ownership  
10 which had become bankrupt. If it has gone to  
11 unreasonable or unnecessary lengths, cure should be a  
12 matter of public policy. There is legislation  
13 providing for co-operation rather than competition in  
14 handling traffic and from this some results have been  
15 achieved, as in the operation of certain pool trains.  
16 Such results, however, have been limited and the  
17 reason may be that it is difficult for a privately-  
18 owned and a publicly-owned system to reach common ground.  
19 If such is found to be the case perhaps the legislation  
20 could be amended so that steps in this direction would  
21 be mandatory to a greater extent than is now the case.  
22 Special organization might be provided for continuous  
23 study of possible economies, perhaps by having the  
24 Board of Transport Commissioners set up a department  
25 for the purpose, with a duty imposed upon that Board  
26 to report directly to the Governor-in-Council.

27 (4) Can Railway Transportation be a Profitable  
28 Industry?

29 Implicit in much discussion of railway freight  
30 rates is an assumption that railway transportation both





1 should be and can be a profitable industry, yielding  
2 a sufficient margin over operating expenses to pay a  
3 satisfactory return on capital invested in the past.  
4 A corresponding assumption is that a rate structure  
5 can be devised to make railway operations profitable  
6 and to keep them so. Those assumptions are open to  
7 question for two reasons:  
8

9 (a) Expectation of operating profits  
10 was not of itself sufficient to bring the  
11 Canadian railway system into being. Some  
12 segments of it were built directly with  
13 government funds for reasons of broad  
14 national policy. Other segments were  
15 built with private capital but only under  
16 encouragement by cash subventions and by  
17 great land grants. Much of such private  
18 capital has been lost, particularly in  
19 the case of the Grand Trunk Railway.

20 (b) The railways themselves have  
21 admitted that on much of their traffic  
22 they cannot impose rates as high as  
23 authorized. If they attempt to do so  
24 either the business will not move at all  
25 or it will move by alternative conveyance.

26 The experience of other countries does not  
27 provide proof that railways necessarily are or should  
28 be profitable. Vast private investments were made  
29 both in the United Kingdom and in the United States in  
30





1  
2 the hope of profit from railway operations. The  
3 British railways have been nationalized. In the United  
4 States there are voluminous records of railway  
5 receiver ships, of railway re-organizations and of  
6 capital lost.

7 (5) Operations in the United States.

8 The two great Canadian systems are involved  
9 in operating some 6,500 miles of line in the United  
10 States, directly, through controlled companies or  
11 through wholly-owned subsidiaries. Such operations  
12 are carried on under different conditions, different  
13 laws, and different regulations from those which  
14 prevail in Canada. Results of operations in the United  
15 States are reflected in the accounts and in the  
16 financial position of each of these railways.

17 Q. What significance have these  
18 operations in the United States in your brief?

19 A. Well, in our opinion there are  
20 several reasons for thinking that these operations  
21 might be of some interest to the Commission by  
22 including the following:

23 FIRSTLY: They constitute some of the  
24 other assets and provide some of the other income  
25 into which the Commission is to inquire.

26 SECONDLY: They afford an opportunity, if  
27 the Commission so desires, to make comparison between  
28 operating results in Canada and in the United States.

29 THIRDLY: Newspaper reports indicate that  
30 a consolidation is underway of the Soo Line and two





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1  
2 other railways in the United States in which Canadian  
3 Pacific is interested. There are other newspaper  
4 reports of contemplated consolidations of railways in  
5 that country. Such development may be of interest  
6 to the Commission as indicating moves to present  
7 railway competition in the United States.

8           FOURTHLY: The Commission may desire to  
9 obtain information as to the extent to which grain  
10 transportation in the United States has been diverted  
11 from railways to trucks. Our information is that this  
12 has been very extensive and that railways have  
13 recently made considerable cuts in their grain rates  
14 to Minneapolis and Duluth on account of that  
15 competition. We understand that both the Soo Line  
16 and Canadian National Railways have filed tariffs of  
17 reduced rates to Minneapolis or Duluth on account of  
18 truck competition.

19 (6)           Passenger Service.

20           It is inherent in the nature of a railway  
21 that it should provide passenger service, and in most  
22 places continue to do so in spite of shrinkage in  
23 volume of passenger business, and even which such  
24 service becomes a source of expense rather than  
25 a source of revenue.

26           Q.       Do you wish to enlarge on your  
27 reference to passenger service?

28           A.       The Commission has been told that  
29 grain traffic is "basic" to certain lines in  
30 western Canada. With equal or greater appropriateness





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1 the term might be applied to passenger traffic.  
2 Carrying passengers, enabling persons to get from one  
3 part of the country to another was in the beginning  
4 an essential function of the railways, even more  
5 important in places than the movement of freight. A  
6 great part of the investment in railways was made so  
7 that passengers could be carried comfortably, rapidly  
8 and safely. Passenger revenues in earlier years were  
9 a much larger percentage of total railway revenues than  
10 is now the case. The decline in importance of the  
11 passenger business must be a source of  
12 difficulties of the railways at the present time.

13 The description of grain traffic as basic  
14 has led the railways to attribute to it a very large  
15 share of their total costs. Apply a similar  
16 calculation to the passenger business, charge it with  
17 the share of costs it was originally expected to carry,  
18 with the investments originally made in the  
19 expectation that passenger traffic would continue its  
20 former importance, and you could probably build up a  
21 very large passenger deficit indeed.

22 COMMISSIONER ANSCOMB: May I interrupt  
23 and ask whether the rates that they have reduced  
24 in the United States were much higher than the rates  
25 in Canada?

26 THE WITNESS: That is true and at the same  
27 time there is an answer to that. You must remember,  
28 sir, that in Canada the greater percentage of grain  
29 handling is for export. In the United States by far  
30





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1  
2 the greater percentage is domestic, and a fair  
3 comparison of the United States rates with Canadian  
4 rates, in my opinion, should be a comparison of their  
5 rates with our domestic rates and not our export  
6 rates, because in the United States the small export  
7 quantity of grain is being assisted in other ways by  
8 the State. I should go on to say that you probably  
9 have seen in the press that also within the last  
10 month the railways in the United States have made a  
11 reduction in their rates to the Pacific.

12 THE CHAIRMAN: To the west coast?

13 THE WITNESS: Yes.

14 MR. SINCLAIR: Would Mr. Brownlee put the  
15 figure of the reduction on the record as it was  
16 corrected? Would you mind putting the figure on the  
17 reduction -- to what level?

18 THE WITNESS: I am not able to say that,  
19 unless Mr. Hunter is. When I was informed in  
20 Minneapolis by members of the grain trade of the  
21 application that had been made I asked Mr. Hunter if  
22 he would correspond with his agents in Minneapolis  
23 to find out, and whether he has the reply I don't know.

24 THE CHAIRMAN: The reduction was 18 cents.

25 MR. SINCLAIR: It was a mistake, and I  
26 think it was reduced to 81 cents.

27 THE CHAIRMAN: The Canadian press  
28 unfortunately made that mistake.

29 MR. SINCLAIR: I am glad Mr. Brownlee brought  
30 this up because some of the comment was very surprising





1  
2 in the press, and I think the true figure was 81 as  
3 compared to the Canadian figure of 26 for similar  
4 mileage.

5 THE WITNESS: I accept that, sir; that is  
6 correct. Incidentally, the reference to the comments  
7 made do not include mine.

8 MR. SINCLAIR: No, I know that.

9 THE WITNESS: However, I am more concerned  
10 about the reduction that is being made in Minneapolis  
11 because grain is now being moved fairly extensively  
12 by truck from some parts of Canada, as much as over  
13 500 miles in British Columbia from Creston and Vanderhoof,  
14 where we have elevators, to feed plants in eastern  
15 British Columbia, even taking them up over the  
16 Stevens Pass which is not an easy highway. I think  
17 there is significance in the fact that at Minneapolis  
18 where grain is being trucked 500, 600, and 700 miles  
19 the railways have found it necessary to make quite a  
20 reduction, and that is the only reason for interjecting  
21 that, sir.

22 (7) Unproductive Territory

23 Of necessity, a Canadian railway system, in  
24 order to connect the developed parts of the country with  
25 each other must operate many miles of track through  
26 territory comparatively unproductive of traffic. While  
27 the area north of Lake Superior and the mountain  
28 territory are outstanding instances, there are also  
29 many others.  
30





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(8) Mountains.

Both Canadian railways run through hundreds of miles of mountainous territory, imposing great costs for construction and operation. For reasons of national policy they are required to set their charges as if the mountains imposed no extra cost.

(9) Waterways.

In Central Canada the railways must keep their rates low to meet water competition.

Although it might be made longer, the foregoing list is sufficient to provide a background for what we wish to present.

SECTION III - RAILWAYS AND NATIONAL POLICY

The present railway situation in Canada and the various problems it presents are the outcome of national transportation policies of the past even if such an outcome was neither intended nor foreseen. Transportation has always been a matter of urgent public concern in Canada, inevitably so with a sparse population extended over vast distances. The Inter-colonial Railway and the Canadian Pacific were necessities of Confederation, but long before Confederation railway development had occupied the attention of the Government and Legislature of the Province of Canada. Later, ambitions for national development led to vast railway construction largely financed by government guarantees, public funds and land grants. In retrospect much of the railway building which took place during the first quarter of





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1  
2 the present century is seen to have been uneconomic  
3 in that lines were built which could not be self-  
4 sustaining; some of it is now seen to have been  
5 mistaken or unwise; some considerable part of it has  
6 been described as folly.

7 This spirit of 50 years ago is indicated  
8 by a report in 1909 by the President of the Canadian  
9 Northern Railway who mentioned the efforts of that  
10 company "to acquire the advantages of first  
11 construction in the best districts of all sections  
12 of the province (Saskatchewan); and their efforts  
13 to pre-empt, as it were, the most advantageous  
14 positions for the company." (Canadian Annual Review  
15 1909, p. 612).

16 Much railway building was undertaken  
17 before it was possible to have any concept of the  
18 subsequent development of transportation by road, by  
19 air and by pipelines which was later to rob the  
20 railways of much traffic earlier expected.

21 There is no occasion here to recite the  
22 history of railway construction. The record is  
23 sufficiently set forth in the report in 1932,  
24 already familiar to you, of an earlier Royal  
25 Commission. A corresponding survey, if now made, would  
26 have to take into account vast public expenditures of  
27 recent years on highways, airways and canals and also  
28 the development of pipelines to carry a large portion  
29 of the country's fuel.  
30





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1  
2           The government-owned railway system, Canadian  
3 National Railways, comprises some 23,000 miles of  
4 "first main track" across the ten provinces of Canada.  
5 Part of it was deliberately built with national funds  
6 to serve national purposes, quite apart from any  
7 expectations that it would become a commercially  
8 profitable organization. Other parts are in the  
9 system because of the bankruptcy of private ventures  
10 unable to meet commitments undertaken in return for  
11 government financial assistance.

12           Not many years ago the weight of debt resting  
13 upon the Government of Canada from the various enterprises  
14 which now make up Canadian National was thought by many  
15 persons to be ruinously heavy. Since then Canada has  
16 grown in wealth and in population. The debt in question  
17 is no longer regarded as either a crushing or an  
18 intolerable burden. It can be treated as incidental  
19 to the country's development, even if some of it has  
20 to be attributed to errors of judgment or lack of  
21 foresight. That fact, however, should not lead to  
22 forgetfulness of how Canadian National came into  
23 being as a transcontinental system nor should it lead  
24 to a fallacious expectation that a system with such  
25 a history either can be or should be a successful  
26 commercial enterprise in the sense of paying a return  
27 upon its original cost.

28           If the whole Canadian National Railways  
29 enterprise is not profitable abundant reason can be  
30 found in national transportation policies, both past





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1 and present. The cause is not to be found by  
2 examining the freight rate structure nor are alterations  
3 in that structure likely to effect a cure.  
4

5 Canadian National continues to absorb  
6 government funds and to make use of government credit.  
7 A 25-year synoptical history is published on page 39  
8 of the annual report for 1958. Fixed charges in 1934  
9 are shown to have been \$58,223,000. In 1952, after  
10 some financial re-organization and after writing off  
11 debts to the government of Canada, fixed charges were  
12 only \$25,415,000. They have since increased until in  
13 1958 they amounted to \$46,521,000. The increase for  
14 the year in long term debt guaranteed by the Government  
15 of Canada was \$146,307,319 while at the same time  
16 the Government of Canada through additional investment  
17 increased its equity in the system by \$64,936,539. A  
18 statement presented to this Commission by Canadian  
19 National Railways shows total capital employed, after  
20 eliminating figures for Trans-Canada Airlines, to be  
21 more than \$3,139,000,000.

22 Canadian Pacific Railway frequently complains  
23 that its rail operations are less profitable than it  
24 would like. It can find one important reason for that  
25 fact in the diversion of traffic from its lines to  
26 Canadian National Railways, to roads and to airways as  
27 the result of past and continuing national  
28 expenditures thereon.

29 Present national policy undoubtedly sustains  
30 the existing competition between two great trans-





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1 continental railway systems, one under private and one  
2 under public ownership and control. On the basis of  
3 experience during the past quarter century it would  
4 be rash now to pronounce a verdict and to say that  
5 such an experiment cannot succeed. It would be equally  
6 rash to assume that the experiment will be successful  
7 or that any practicable freight rate structure will  
8 make it satisfactory.  
9

10 We do not believe that the country is  
11 prepared now to contemplate completely unified  
12 operation of its two transcontinental railway systems.  
13 We do fear that it may become necessary to consider such  
14 a step unless there can be devised and introduced  
15 methods under which present competitive costs can be  
16 reduced by greater measures of co-operation than have  
17 so far been employed.  
18  
19  
20  
21  
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30





1  
2 SECTION IV - NATIONAL PURPOSE SERVED BY  
3 STATUTORY GRAIN RATES

4           The fact that certain grain freight rates  
5 in Western Canada are statutory and are thus withdrawn  
6 from jurisdiction of the Board of Transport  
7 Commissioners identifies them as connected with national  
8 policy. They reflect an enduring national purpose  
9 rooted in Canadian history and dating back to  
10 Confederation. That purpose was to develop agriculture  
11 in the area now comprised in the prairie provinces and  
12 formerly under administration of the Hudson's Bay  
13 Company. Such agricultural development was to be  
14 based, and could only be based, upon growing grain for  
15 export. That enterprise required railway building  
16 in the first place, and in the second place permanent  
17 assurance of railway rates which would make grain  
18 production economically feasible.

19           All histories of the time show that the  
20 Fathers of Confederation in 1867 were determined to  
21 unite the provinces of Central Canada with the Maritime  
22 provinces and British Columbia. That made necessary  
23 construction both of the Intercolonial Railway and of  
24 the Canadian Pacific Railway. But there was also the  
25 determination to strengthen the economy of Central  
26 Canada by changing the prairies from a fur trading  
27 preserve to a settled agricultural community.  
28 Development, although slow to start, was to gather  
29 strength and move forward in a tremendous surge during  
30 the first thirty years of the present century. To





1 quote Professor A.R.M. Lower in his book "Canadians  
2 in the Making",

3 "At the end of the decade, 1880,  
4 the west still had only a handful of people.  
5 Twenty years later the fire had just begun  
6 to spread and thirty years after that again  
7 (1930) it had stopped, because it had  
8 burned itself out through the occupation  
9 of most of the good land."  
10

11 During that period central Canada reaped rich  
12 rewards with the growth of its industries based upon  
13 the domestic market opened up in the prairie provinces,  
14 and retained for it by protective tariffs. Throughout  
15 that period it was the wheat growing industry of  
16 Western Canada which provided the chief stimulus for  
17 growth in the Canadian economy. To quote Professor  
18 Lower again:

19 "Here, somewhere between 1902  
20 and 1910, the country swung from youthful  
21 enthusiasm for the father's cause to  
22 concern for and pride in its own growth;  
23 it had passed the most trying period of  
24 adolescence and was finding the signs  
25 of manhood coming over it. There is  
26 little doubt as to the factor which  
27 accelerated and emphasized the change;  
28 it was that one to be described in the  
29 next chapter, the opening of the west."  
30





1  
2 Confederation itself was largely based upon  
3 a national purpose of agricultural development of the  
4 prairie area. That is shown by Dr. Creighton in his  
5 study "British North America at Confederation",  
6 Appendix II of Report of Royal Commission on Dominion-  
7 Provincial Relations, (pp. 31, 42, 48, 89).

8 Professor Chester Martin has dealt with  
9 the same subject in the preface to "Dominion Land  
10 Policy", Volume II of "Canadian Frontiers of  
11 Settlement" published by the MacMillan Company of  
12 Canada, 1938. He says (p.196):

13 "But if 1870 marked the end of one  
14 epoch it also marked the beginning of  
15 another. The westward expansion of the new  
16 Dominion was a 'national necessity', and it  
17 could be brought to pass only by policies  
18 truly national in their scope. It was  
19 determined to retain the public lands as  
20 a national appanage to be 'administered  
21 by the Government of Canada for the  
22 purposes of the Dominion'. This applied  
23 to the new province of Manitoba as well as  
24 to the territories beyond. The twin  
25 problem of railways and settlement could  
26 be solved by no other expedients at that  
27 time. These were 'good and sufficient  
28 reasons of public policy', and they have  
29 never been disputed; but the process  
30 had consequences that could scarcely





1  
2 have been foreseen. It transformed the  
3 Dominion from a federation of equal  
4 provinces into an empire with a quarter  
5 of a continent of 'Dominion Lands' under  
6 direct federal administration. For sixty  
7 years this vast domain was 'administered  
8 by the Government of Canada' until the  
9 historic 'purposes of the Dominion' were  
10 fairly achieved, so far as public lands  
11 could help achieve them."

12  
13 In addition to a policy of railway building  
14 there was a far-reaching immigration policy extending  
15 over a period of years during which all the resources  
16 of government were devoted to encouraging the flow of  
17 agricultural settlers from the United Kingdom and  
18 Continental Europe.

19 These policies of themselves would not have  
20 been enough. The government had to develop a policy  
21 of low freight rates on grain and of assuring settlers  
22 that these would continue. Otherwise the enterprise  
23 of grain growing on the prairies would have been too  
24 hazardous to attract the desired number of people.  
25 Settlers were being invited to establish themselves  
26 as producers of wheat for export to distant countries  
27 and to do so in the far interior of the continent  
28 at a distance of from 400 to 1,200 miles from the  
29 primary marketing point at the lakehead. That was a  
30 longer freight haul by rail than had ever previously





1  
2 been faced by grain producers anywhere else. These  
3 settlers had to take the risks of transportation costs  
4 by water once their grain should reach the lakehead,  
5 but such costs were held down by competition between  
6 vessels. They needed assurance against intolerably  
7 high rail freight costs to the point of transfer to  
8 vessel.

9 The assurance for the prospective settler  
10 of the future was provided when the Government of  
11 Canada and the Canadian Pacific Railway entered into  
12 the Crow's Nest Pass Agreement of 1897. The  
13 subsequent development and settlement of the prairies  
14 was based on the restricted grain freight rates then  
15 established and the guarantee of their continuance.  
16 It was a necessary national policy if the national  
17 purpose of western expansion of Canada was to be  
18 achieved.

19 Although by 1897 the main line of Canadian  
20 Pacific had been completed for some years,  
21 development of the country was lagging. Most prairie  
22 land was still vacant, most of its population was  
23 still to come. The railway had hardly begun to  
24 sell the lands granted to it, the homesteads of the  
25 future were still vacant. The grain freight rates  
26 then agreed upon were not designed primarily to  
27 benefit an existing population. They were designed  
28 to bring in a population of the future and to  
29 bring under cultivation lands still unoccupied. They  
30 were designed to make the growing of grain for export





1  
2 an attractive occupation. They accomplished their  
3 purpose and within the next thirty years the  
4 industry was well developed.

5 Contract with the Canadian Pacific Railway  
6 was the method first chosen for putting into effect  
7 this national policy of restricting grain freight  
8 rates in western Canada. Building of the Crow's Nest  
9 Line, for which a subsidy was granted by the Government  
10 of Canada, provided occasion for such a contract.  
11 Otherwise, so necessary was such a policy for  
12 development of the prairies, that other occasion and  
13 other method would presumably have been resorted to.

14 It is not to be assumed that Canadian  
15 Pacific entered into the contract reluctantly or only  
16 for the purpose of securing a subsidy. On the  
17 contrary, the new policy greatly benefited the railway.  
18 It assured settlement and made saleable the railway's  
19 vast holding of agricultural lands and gave these  
20 lands a selling value greater than they otherwise would  
21 have had.

22 Emphasis was given to this national policy  
23 in 1903, when the Board of Railway Commissioners was  
24 first established and provision was first made for  
25 general regulation of railway rates. The Crow's  
26 Nest rates on grain were embodied in the Railway Act  
27 and excluded from the jurisdiction of the Board of  
28 Railway Commissioners.

29 National policy in this respect was emphasized  
30 again in 1919. To meet what was considered a temporary





1  
2 emergency arising from war-created conditions, the  
3 Railway Act was amended to extend the jurisdiction  
4 of the Board to all rates. Temporary increases in  
5 grain rates resulted, warranted by high grain prices  
6 then prevailing. But suspension of the Crow's Nest  
7 grain rates was for three years only and in 1922  
8 Parliament provided for an immediate reversion thereto.

9 This national policy was once more confirmed  
10 and strengthened by amendment to the Railway Act in  
11 1925, unchanged since then. Crow's Nest rates on  
12 grain were applied from all points on all railway  
13 lines west of the lakehead to Fort William. At the  
14 same time sub-section 7 of Section 328 was enacted to  
15 insure that export rates on grain to Pacific ports  
16 would be on a corresponding basis to that applying  
17 to the lakehead.

18 Both Canadian Pacific and Canadian National  
19 have pointed out that the present application of  
20 statutory rates is much wider than originally  
21 provided for in the Crow's Nest Pass agreement, which  
22 applied only to Canadian Pacific, and, it is claimed,  
23 only to certain points of origin thereon. No valid  
24 argument against the present extent of statutory  
25 grain rates can be founded upon such statements.  
26 From 1897 on, every mile of railway constructed in  
27 Western Canada was built against the background of the  
28 national policy just described. Railway builders  
29 had full knowledge of that policy and of its  
30 inevitable extension to all lines.





1  
2 Protest must be made against the  
3 implication in a statement of Canadian National (in  
4 Exhibit 46) that "neither Canadian National nor any  
5 of its predecessor companies was a party to the  
6 Crow's Nest Pass Agreement nor did any of them  
7 receive any grants or assume any obligations in  
8 respect thereof." Canadian Northern, not in  
9 existence in 1897, was party to another agreement for  
10 grain rates still lower than those embodied in the  
11 Crow's Nest Pass Agreement. That was made in 1903  
12 with the province of Manitoba. Under it, in return  
13 for certain financial assistance from the province,  
14 Canadian Northern made certain reductions in rates,  
15 including the rates on grain and flour, and Canadian  
16 Pacific for competitive reasons lowered its rates  
17 to that level. Canadian Northern, now a part  
18 of Canadian National, escaped from that obligation only  
19 in March, 1918, when the Board of Railway Commissioners,  
20 holding itself not bound by the Manitoba agreement,  
21 authorized increases in rates on grain and flour but  
22 not to exceed the level provided by the Crow's Nest  
23 Act of 1897.

24 Thus there is a broad foundation for the  
25 grain rates in question. It begins with a solemn  
26 contract in 1897 between Canadian Pacific and the  
27 Government of Canada. Neither the settlers yet to  
28 come nor the railways of the future put their hands  
29 to that document. The foundation was broadened when  
30 there was created what in essence was a tri-partite





1 contract between the government, the railways and  
2 the settlers, since these were induced to come in  
3 and to buy land by the guarantee of a permanent freight  
4 rate structure for their grain. That relationship  
5 was well described by the Prime Minister, Mr.  
6 Diefenbaker, in the House of Commons on May 13, 1959,  
7 when he said:

8 "The Crow's Nest Pass rates  
9 are part of a bargain that was made  
10 between the railways and the government  
11 on one hand and the settlers who went  
12 west on the other hand. "

13 The foundation thus established was further broadened  
14 by repeated legislative enactment to cover additional  
15 railway lines and additional ports. It was broadened  
16 by the building of additional railway lines against  
17 the background of the national policy embodied in  
18 the original contract and in subsequent legislation.

19 In the light of the foregoing there can be  
20 examined a contention of the railways that the  
21 statutory grain rates constitute an inequity in the  
22 freight rate structure. Certainly Parliament  
23 contemplated not only once, but repeatedly, that  
24 other rail freight rates might rise while those in  
25 question on grain would be precluded from change. It  
26 might be argued that the intent of Parliament is in  
27 itself a defence against the charge of inequity. It  
28 is unnecessary to do so since a broader defence is  
29 available. An inequity involves invidious treatment as  
30





1 between individuals, areas, or industries. The  
2 statutory grain rates in question were not established  
3 nor have they been maintained for the purpose of giving  
4 to one set of individuals benefits denied to others or  
5 at the cost of others. They were designed and they  
6 were maintained for a national purpose, for the  
7 benefit of the whole country. That purpose was to  
8 bring into being and to maintain in the prairie area  
9 a great industry of growing grain for export. Without  
10 such rates, and without a guarantee of their  
11 continuance, the industry could not have made the vast  
12 contribution it has made and continues to make to the  
13 national welfare and to the general economy of Canada.  
14

15 SECTION V - RAILWAY LAND GRANTS

16 Railway grants of public land in what are  
17 now the Provinces of Manitoba, Saskatchewan and  
18 Alberta have a relation to the statutory grain  
19 rates. Information as to these is found at page 89 of  
20 the Report of the Royal Commission in 1932. As to  
21 Canadian Pacific it says:

22 "Under the original contract of  
23 that company 25 million acres of Dominion  
24 lands were granted. Subsequently  
25 6,793,014 acres were returned for a  
26 cash consideration of \$10,189,521.  
27 Afterwards further grants were made of  
28 1,710,400 acres, principally to the  
29 Souris branch. Subsidiaries now  
30





1  
2 forming part of the Canadian Pacific  
3 received Dominion land grants  
4 aggregating 6,139,963 acres, but at  
5 the time such lands were acquired by  
6 the Canadian Pacific these subsidiaries  
7 owned only 2,235,145 of these original  
8 grants. The total of the grants which  
9 may, therefore, be said to have been  
10 received by the Canadian Pacific is  
11 22,152,531 acres."

12  
13 Railways now part of Canadian National  
14 received 5,727,000 acres of Dominion lands. Total  
15 railway land grants were thus over 31,700,000 acres.

16 These grants were by the Government of  
17 Canada, which at the time controlled all public lands  
18 in what are now the Provinces of Manitoba, Saskatchewan  
19 and Alberta. Actually they were made at the expense  
20 of these provinces, which later were to acquire from  
21 the federal government the natural resources within  
22 their boundaries, or rather what was then left of  
23 such resources after disposals already made by the  
24 federal government.

25 Such grants by the government were complete  
26 and carried with them not only surface rights but  
27 also rights to underlying minerals, including gas and  
28 oil.

29 It is impossible to say what these land  
30 grants may have been worth to the recipients. But





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1  
2 they made railway financing possible and railway  
3 construction which without the land grants would not  
4 have occurred. The annual report of Canadian Pacific  
5 for 1956 showed an amount of \$101,685,263, previously  
6 described as "land surplus" and thereafter to be  
7 included in "retained income".

8 When Canadian Pacific sold land to farmers  
9 it retained mineral, petroleum and gas rights. These,  
10 which have only recently come under development, are  
11 proving to be of immense value. Canadian Pacific at  
12 the end of 1958 was getting petroleum royalties from  
13 720 producing wells and had capped six commercially  
14 productive wells. It showed an income from petroleum  
15 rents and land rents of \$6.8 million at a time when  
16 allowable production was limited to a fraction of  
17 potential production, because of marketing difficulties.  
18 What the return may be when the petroleum rights  
19 are fully developed and fully productive can only be  
20 imagined.

21 No one can calculate exactly what may have  
22 been the cost to the prairie provinces of the  
23 disappearance from their natural resources of some  
24 31 million acres of land in railway grants together with  
25 the oil, gas and other mineral rights associated  
26 therewith. The cost must have been vast, to judge from  
27 the great revenues derived in recent years by the  
28 province of Alberta from exploitation of such  
29 remaining mineral rights as did accrue to it when it  
30 obtained possession of its remaining natural resources.





1  
2 That cost to the prairies is to be regarded as  
3 payment in advance to the nation for benefits to the  
4 prairies from railway construction and from national  
5 policy in respect to freight rates on grain.

6 The fact of such advance payment will be a  
7 defence, if defence is necessary, against any claim  
8 from other parts of Canada that the western grain rates  
9 impose a burden on them. That there is no such burden  
10 will be shown in the following section.

11 SECTION VI - WHAT INEQUITY - WHAT BURDEN?

12 Your Commission is to consider inequities  
13 in the freight rate structure and burdens which arise  
14 from obligations and limitations imposed by law upon  
15 railways for reasons of public policy. Undoubtedly the  
16 statutory grain rates constitute one of such limitations,  
17 although there are also others. You have heard  
18 suggestions that the statutory grain rates constitute  
19 an inequity against shippers of other commodities or  
20 result in a burden on those not engaged in producing  
21 grain for export. Where then are we to find the injury  
22 or the injured?

23 Consider first British Columbia. Most of  
24 the residents of that province live in the Vancouver  
25 area, and Vancouver, to the pride of all Canada, is  
26 becoming one of the world's great cities and one of  
27 the world's great ports. Its progress has been  
28 related to natural advantages of its situation in  
29 respect to freight rates, and to national policy  
30





1  
2 relating thereto.

3 Vancouver began as the terminus of the  
4 Canadian Pacific Railway, built to bring British  
5 Columbia into Confederation. That building was  
6 made possible by vast grants of land in the prairie  
7 area. The land came out of the natural resources, out  
8 of the patrimony of the prairie provinces.

9 Vancouver has developed as a port largely  
10 because of the flow of prairie grain, grain which  
11 would never have been grown had Canada not entered  
12 upon the national policy of encouraging the growing  
13 of grain for export, a policy exemplified by the  
14 statutory grain rates. Concurrently there has been a  
15 national policy of developing Vancouver as a port.  
16 That policy has been exemplified by the building  
17 there of government-owned elevators. It is also  
18 exemplified by regulation of freight rates, by  
19 statute and otherwise. For example:

20 (a) The statutory grain rates, originally  
21 applicable eastbound, were extended to  
22 Vancouver, first by judgment of the Board  
23 of Railway Commissioners, and subsequently  
24 the extension was made statutory under  
25 the Railway Act. In spite of benefit to  
26 the grain growing industry thereby accruing  
27 that benefit was not the primary purpose  
28 of the extension. The primary purpose  
29 was the development of Vancouver as a port  
30 for grain shipment.





1 (b) The Railway Act declares in Section  
2 336 a national policy for the uniformity  
3 of freight rates. But that section also  
4 provides for exceptions which in practice  
5 apply to rates on export and import traffic  
6 through Canadian ports, in respect to  
7 competitive rates and in respect to agreed  
8 charges. Under those exceptions a great  
9 volume of freight traffic moves to and  
10 from Vancouver at rates and on scales  
11 far lower than those prevailing between  
12 inland points. The benefit arising to  
13 Vancouver as a port and to the residents  
14 of British Columbia from such statutory  
15 provisions corresponds in nature to the  
16 benefit accruing to the grain growing  
17 industry of the prairies from the statutory  
18 grain rates.

19 (c) British Columbia is protected by  
20 law against freight rates designed to  
21 recover for the railways costs of  
22 construction and operation higher in  
23 mountain territory than on the plains.  
24 When railway rates were first established  
25 to and from the Pacific coast they were  
26 higher than elsewhere for transit through  
27 the mountains, being inflated by a  
28 constructive mileage described as the  
29 "mountain differential". That differential  
30





1  
2 was eroded from time to time by  
3 competitive rates, by export and import  
4 rates, and by agreed charges. Nevertheless  
5 it was still substantial ten years ago when  
6 it was abolished by the Board of Transport  
7 Commissioners. That action was subsequently  
8 confirmed by the declaration in the Railway  
9 Act of a "national freight rates policy"  
10 of uniformity. National policy in this  
11 respect has the same purpose as the national  
12 policy embodied in the statutory grain  
13 rates. It is to abolish economic  
14 handicaps resulting from natural  
15 disadvantages and to do this in the national  
16 interest. Faith in a national destiny for  
17 Canada built the railway to the Pacific  
18 coast, ignoring what the mountains added  
19 to the cost of railway construction. Later,  
20 rate adjustments were to ignore what the  
21 mountains add to costs of railway operation.  
22 The mountains are still visibly there so  
23 it cannot be said that faith was strong  
24 enough to move them. But it has been  
25 strong enough to shift their economic  
26 burden from the shoulders of the province  
27 to the shoulders of the nation.

28 The lumber industry of British Columbia  
29 and its fruit growing industry have developed and  
30 flourished on the basis of a market which would not





1  
2 have been available except for the peopling of the  
3 prairies which resulted from the national policy of  
4 developing the industry of growing grain for export.  
5 Part of that market was on the prairies; another  
6 part, also based on western population and western  
7 grain, was in central Canada.

8 It is not for British Columbia or any of  
9 its industries to complain of inequity or burden  
10 arising from the statutory grain rates.

11 Coming into Alberta, Saskatchewan and  
12 Manitoba, the attitude of their governments shows  
13 that the great majority of the people of these  
14 provinces wish the statutory grain rates to continue  
15 and do not complain of inequity or burden arising  
16 therefrom.

17 Ontario has no reason to complain of  
18 either burden or inequity arising from these grain  
19 rates. It made no such contribution to the cost  
20 of the Canadian Pacific Railway as did the western  
21 provinces. In spite of that fact it benefited  
22 enormously when railway construction opened up the  
23 prairie market for its industries and when that  
24 market was held captive for them by a national policy  
25 of protective tariffs. Its freight rates are kept  
26 down by the great curve of waterway, river, lake  
27 and canal, which sweeps around its southern boundary.  
28 Consequently its government has found no reason  
29 for concern in freight rate increases and in freight  
30 rate hearings which in recent years have greatly





1 preoccupied other provinces.

2  
3 Quebec is similarly fortunate. In addition,  
4 Montreal has become a great inland port both by  
5 virtue of the grain grown for export in western  
6 Canada and by virtue of great expenditures on the  
7 canal system by the government of Canada.

8 The Maritime provinces have no reason for  
9 complaint in this respect. A national railway was  
10 built to bring them into Confederation, not at their  
11 expense, but at the cost of the central government.  
12 They have protection under the Maritime Freight Rates  
13 Act. Halifax and St. John flourish as ports, through  
14 national policy and railway policy to encourage  
15 traffic to them at low freight rates.

16 Your predecessor Royal Commission in its  
17 report of 1951 included the following:

18 "For many years now it has been  
19 a recognized factor of Canadian  
20 transportation policy that the hardships  
21 arising from our necessarily long east-  
22 and-west railway haul have been tempered  
23 along the way by four great measures of  
24 relief: The Maritime Freight Rates Act  
25 in the Atlantic Region, the toll-free  
26 canals in central Canada, the competitive  
27 transcontinental railway rates at the  
28 Pacific Coast, and the Crow's Nest Pass  
29 rates in the Prairies."  
30





1  
2 No matter what net return accrues to the  
3 railways from carrying grain in western Canada your  
4 Commission is justified in dismissing any suggestion  
5 that other parts of Canada suffer an inequity or bear  
6 a burden on account of the grain freight rates under  
7 discussion.

8 Canada would not be the Canada of today,  
9 with the population of today, with the economic wealth  
10 or the purchasing power of today without the Crow's  
11 Nest Grain rates. Without those rates we should not  
12 have had such cities as have grown up in Vancouver  
13 and in Montreal, in Oshawa, Windsor, Brantford and  
14 Hamilton. To document that statement there is available  
15 the report of the Royal Commission on Dominion-Provincial  
16 relations and the chapter on Prairie Development which  
17 commences on page 66 of Book I entitled "Canada: 1867 -  
18 1939". A few extracts follow:

19 "Settlement Boom makes National  
20 Economic Policies effective - general  
21 expansion and national economic  
22 integration". (Sub-heading).

23 "The development of the northwest  
24 in so short a time brought prosperity and  
25 rapid economic expansion to the rest of  
26 Canada."

27 "The protective tariff enabled  
28 Canadian manufacturers to capture the  
29 greater share of this new market, thus  
30 giving a tremendous impetus to industrialization





1  
2 in Ontario and Quebec, to the coal and  
3 steel industry in Nova Scotia and to the  
4 lumber industry in British Columbia."

5 "The two national policies of all-  
6 Canadian transportation and protective  
7 tariffs were closely related."

8 "The Dominion's railway policy  
9 played a significant part, both in  
10 promoting the settlement of the northwest  
11 and in making that settlement the basis  
12 of expansion in other regions of Canada."

13 "The provision of national  
14 transportation facilities was but one  
15 aspect of Dominion railway policy. To  
16 attain the objective of that costly policy  
17 it was necessary to secure a level of  
18 rates which would counteract the north-  
19 south pull of geography and of possible  
20 alternative routes and draw traffic over the  
21 east-west lines instead."

22 "The objectives of the Dominion  
23 appear clearly in the Crow's Nest Pass  
24 agreement of 1897."

25 "A booming market for manufacturers -  
26 protective tariffs direct demands of  
27 railway expansion and western settlement  
28 into Canadian channels." (sub-heading).

29 "In a few years between 1896 and 1913,  
30 the structure of the Canadian economy was





1  
2 basically changed. The settlement of  
3 the prairies, the great importation of  
4 capital and the direction given by the  
5 national transportation and tariff  
6 policies transformed the isolated and  
7 depressed regions into an integrated and  
8 prosperous economy. The most important  
9 factor in the development of the new  
10 situation was the rise of the prairies  
11 as the important export region."

12  
13 SECTION VII - COST OF MOVING GRAIN

14 The railways have presented you with "cost  
15 studies" of movement of grain at statutory rates.  
16 They ask you to accept resultant figures as the cost  
17 of transporting grain and as showing losses thereby  
18 incurred. We suggest that the figures should not be  
19 so accepted and that the "cost studies" do not prove  
20 what they are said to prove.

21 Anticipating such a presentation, we made  
22 a statement at the opening session in the following  
23 words:

24 "We have taken note of the fact that  
25 your predecessor Commission, under the Hon.  
26 Mr. Justice Turgeon, declined to enter  
27 into a prolonged study of the very contentious  
28 subject of railway cost accounting. We wish  
29 to submit, with deference, that your  
30 Commission might take a similar attitude





1  
2 and find that such a study on such a  
3 contentious matter as the proper  
4 procedures in cost accounting need not  
5 occupy your attention."

6 You have, however, received the figures and  
7 will decide as to their value. We suggest that they  
8 do not show the actual cost of moving grain. Instead  
9 they seem to indicate that such cost cannot be  
10 definitely determined; that railway costs are  
11 mainly joint costs; that apportionment of joint  
12 costs to particular segments of traffic is arbitrary  
13 and that attempts at such apportionment have only  
14 limited value. Some direct costs, of course, can  
15 be ascertained and this has apparently been done.  
16 Some costs can be attributed, with the attribution  
17 largely a matter of opinion; this also has been  
18 done. Some costs can be imagined; imagination has  
19 not been lacking.

20 We suggest that you apply three tests as  
21 to the usefulness of the "cost studies". These  
22 are:

- 23 (a) Are comparisons possible?  
24 (b) Are the terms defined?  
25 (c) Do fallacies emerge? A dictionary  
26 definition of fallacy is "any  
27 reasoning failing to satisfy the  
28 conditions of logical proof or  
29 violating the laws of valid  
30 argument".





1  
2 As to (a), comparisons are precluded. We  
3 are shown the result of applying a particular method  
4 of analysis to the grain traffic. We do not know,  
5 and the record indicates that it would cost too much  
6 to find out, what a corresponding analysis might  
7 show if applied to other segments of traffic.

8 Comparison could be useful, in spite of any defects  
9 there might be in the analysis, just as a yardstick  
10 too short or too long might yield useful information  
11 as to the comparative magnitudes. The lack of  
12 comparative results creates difficulty in forming a  
13 judgment.

14 As to (b), your Commission, not provided  
15 with any definition of "cost" is left to infer the  
16 intended meaning. Without a definition of terms it is  
17 difficult to be sure just what may be meant in  
18 any argument. You are presented with the term  
19 "variable cost", and it seems to be used with a  
20 variable meaning. Not always does it mean, as the  
21 unwary might suppose, expenses which vary with the  
22 volume of traffic under study. Sometimes it is  
23 employed to refer to expenses which vary with the  
24 length of a segment of the railway. And sometimes  
25 it is employed in respect to something which is not  
26 an expense at all, but rather an assumed cost of  
27 capital. Uncertainties in this respect increase  
28 from the use by various writers of such phrases as  
29 short-run cost, long-run cost, marginal cost,  
30 average cost, avoidable cost, fully distributed cost.





As to (c), fallacies, the following attract attention:

Apparent Fallacy No. 1:

The "cost study" implies that the less grain the railways haul in western Canada the better off they would be and the more grain they have to handle the worse their position. This contradicts both natural expectations and the published reports of the earnings of past years. For example, the 1956 annual report of Canadian Pacific expresses satisfaction with that year. It includes the following statements:

The year 1956 was outstanding in its development of Canada.....A decided improvement in grain exports resulted in a substantial increase in the movement of grain and grain products. Net railway earnings, at \$41.3 million, were \$4.2 million higher than in the previous year.... Railway revenue amounted to \$505 million. This was \$57 million higher than in 1955 and 7 per cent above the previous record established in 1953. Freight revenue accounted for most of the increase over 1955, having risen \$55 million or 15 per cent - \$43 million as a result of increased traffic volume and \$12 million as a result of increases in freight rates. Freight traffic volume measured in ton





1  
2 miles increased 4.7 billion or 18  
3 per cent. The movement of low rated  
4 grain was 31 per cent above that of 1955....  
5 Transportation expenses increased by 9 per  
6 cent, compared with an increase of 13 per  
7 cent in transportation service gross ton  
8 miles.

9 Canadian National's report for 1956  
10 included the following statements:

11 Freight revenue rose to an all-  
12 time high....Revenue ton miles rose by  
13 17.5 per cent....grain tonnage was up  
14 37 per cent....net railway operating income  
15 was \$46,791,810 against \$36,157,358 the  
16 previous year.

17 Apparent Fallacy No. 2:

18 The "cost study" leads each railway to  
19 seek benefits from the national treasury. These  
20 would increase by many millions of dollars in a  
21 prosperous year of heavy grain traffic such as  
22 1956 and fall with equal sharpness should grain  
23 traffic be reduced by calamity such as western crop  
24 failures or the drying up of export markets. Surely  
25 if there is to be relief on a fluctuating basis  
26 the fluctuations should be the other way.

27 Apparent Fallacy No. 3:

28 Although disagreeing as to the form in  
29 which Canadian Pacific should be benefitted at the  
30 expense of the national treasury, both railways are





1  
2 led by the "cost studies" to the conclusion that  
3 Parliament should provide a large sum annually for  
4 Canadian National in respect to the grain traffic.  
5 On the basis of 1958 calculations this would have  
6 amounted to approximately \$30 million. That would  
7 have meant nothing at all either to the national  
8 treasury or to Canadian National except a reduction  
9 in amounts otherwise voted by Parliament to the  
10 railway. The vote for that year, to cover deficit  
11 of Canadian National, was more than \$51 million.  
12 (In addition the Government guaranteed an increase  
13 in the railway's long term debt of \$146 million,  
14 while it increased its investment in preferred  
15 stock of Canadian National by \$21 million and its  
16 investment in Canadian Government Railways by  
17 \$51 million.) Nevertheless, adoption of this theory  
18 would have meant a net benefit to Canadian Pacific  
19 at the expense of the national treasury in 1958,  
20 after allowing for income tax, of approximately \$18  
21 million. The government-owned railway system,  
22 therefore, is thus in a position of advocating  
23 something the net effect of which is only to confer  
24 a benefit upon its competitor.

25 Apparent Fallacy No. 4:

26 The "cost studies" attribute to grain a  
27 share of "Traffic Expenses." By definition these  
28 include expenses incurred to obtain business. They  
29 are not necessary and probably are non-existent so far  
30 as grain business is concerned. Grain is a captive





1  
2 commodity, practically immune from competition.

3 Apparent Fallacy No. 5:

4 Canadian National attributes to the grain  
5 traffic a share of a return of 9.25 per cent on a  
6 shareholders' equity of \$1,805 million owned by the  
7 government of Canada (see memorandum on cost of  
8 capital), on which a return at this rate would be  
9 \$167 million annually. This is to ignore the  
10 fact that before your predecessor Commission Canadian  
11 National argued at length for a revision of the  
12 capital structure; that a revision was recommended  
13 by that Commission and subsequently made by Act of  
14 Parliament; that the shareholders' equity in  
15 question, replacing previous debts, was thereby  
16 established. Any such rate of return thereon has  
17 been completely outside of the hope, desire,  
18 expectation or intent of the country; any implication  
19 to the contrary runs counter to the intent of the  
20 Capital Revision Act of 1952. Yet here we find  
21 Canadian National itself making such an implication.

22 Apparent Fallacy No. 6:

23 Canadian National includes in variable  
24 costs \$13.6 million for cost of money and enough more  
25 under constant costs to bring the total annual cost  
26 of money to \$20 million or so. Quite evidently the  
27 figures take no account of errors, extravagances or  
28 follies which may have been committed in the past  
29 in railway construction or in the unnecessary  
30 duplication of lines so strongly commented upon in the





1  
2 1932 Royal Commission report. They ignore the  
3 bankruptcy of Canadian Northern and of Grand Trunk  
4 Pacific and the subsequent writing off which has  
5 occurred; they burden current traffic with a  
6 continuing investment cost; in respect of the least  
7 remunerative lines, those described as "solely  
8 related", they impose most of that burden on the  
9 grain traffic.

10 Apparent Fallacy No. 7:

11 Canadian Pacific in calculating total cost  
12 of grain movement at \$70.7 million includes therein,  
13 in variable costs, \$14.6 million for interest, and  
14 in constant costs an additional amount for annual  
15 total cost of capital. The cost calculation of  
16 Canadian Pacific is based on assumption of a rate  
17 of return of 9.25 per cent both on ordinary stock and  
18 on retained earnings invested in the rail enterprise.  
19 Apart from the fact that this is an assumed and not  
20 an actual rate of return and that it seems  
21 excessively high, other facts are to be noted. Interest  
22 charged against the grain traffic would appear to be  
23 more than enough to cover all Canadian Pacific's fixed  
24 charges, which in 1958 were shown in the annual  
25 report at \$17 million. By claiming a rate of return  
26 on all retained earnings, which includes the proceeds  
27 of land sales, Canadian Pacific appears to ignore  
28 the purpose for which lands were granted to it, which  
29 purpose was to insure the railway's construction and  
30 continued operation.





Apparent Fallacy No. 8:

Income tax is claimed as a cost of moving grain. That is surprising to any one who had supposed that the "cost studies" would be dealing with costs actually incurred. It is surprising also in view of the railways' claims as to the financial results of moving grain, which could not possibly result in the attraction of income tax. It is startling when it is realized that such inclusion adds \$15,000,000 or more to what is alleged to be the total cost of moving grain. And it might be described as bewildering in the case of Canadian National which, although theoretically liable to income tax, has not in fact been paying any.

---

If your Commission sees the foregoing as fallacies you will wish to know whence they arise. The source might be some defect in the analysis which resulted in the figures put before you. More probably the analysis demonstrates as being incorrect the basic assumption on which it was made, the assumption that costs of one segment of traffic can be effectively segregated.

Canadian National presents you with a figure of \$60 million and Canadian Pacific with a figure of \$70.7 million and describe these as being the total costs in 1958 to the railways of moving grain and grain products subject to the statutory rates. We do not





1 believe that you can accept them as such or as  
2 indicating anything more than what the railways would  
3 like to derive from this grain traffic were they  
4 free to do so.

5  
6 SECTION VIII - THE RAILWAYS' PROPOSAL

7 The proposals of the Railways are completely  
8 repugnant to the grain producers of the west. You  
9 have already received ample evidence of that fact.  
10 A clear analysis of the proposals shows good reasons  
11 for that repugnance.

12 It is now clear that your Commission is  
13 asked by these proposals to fix a new rate for grain,  
14 - a rate double the present one. That rate must be  
15 endorsed by Parliament as a condition of granting  
16 the proposed subsidy, and must be subject to periodical  
17 applications for increase to meet the needs of the  
18 railways. I believe Mr. Gordon, President of the  
19 Canadian National Railways in his evidence stated  
20 that reviews would be necessary. Two acts of  
21 Parliament will, therefore, be in effect, with the  
22 Act fixing the new rate, being the latest one, and  
23 the present section of the Railway Act being  
24 interpreted as merely a concession to the present  
25 marketing difficulties of producers, to be  
26 continued only at the pleasure of Parliament.

27 To meet the Railways' proposals your  
28 Commission is further required: -

29 (a) To repudiate the historical  
30 significance of the present Crow's Nest rates and





1  
2 the bargain made between the Government and the  
3 railways and the settlers of the west, so aptly  
4 defined by the Prime Minister:

5 (b) To repudiate the fact admitted  
6 by the railways that the present rates are all that  
7 the traffic can bear, and will remain so for the  
8 foreseeable future;

9 (c) To repudiate the reasons for the  
10 present rates - the fact that grain must be produced  
11 as an export commodity; the distance of the  
12 producing area from primary markets; and the  
13 contribution which the production of grain for export  
14 makes to the economy of Canada;

15 (d) To recommend the payment of a  
16 subsidy said to be for the benefit of producers, but  
17 not in fact payable to them. The producers are not  
18 to be trusted with it, or permitted to use it to seek  
19 or encourage other forms of transportation; it must  
20 be paid to the railways. No record can possibly be  
21 made of the subsidy to each producer. In the guise  
22 of a subsidy to producers it is in fact a subsidy  
23 to the railways.

24 We submit that such a method of granting  
25 or paying a subsidy would be both unfair and unsound.  
26 It would be unfair by representing the western grain  
27 growing industry as a drain on the national economy  
28 instead of being one of the great sources of  
29 Canadian economic strength as it has been from its  
30 inception and as it continues to be. It would be





1  
2       unsound by ignoring the essential problems of the  
3       railway situation, problems which your Commission  
4       was set up to investigate, some of which we have  
5       listed in the foregoing.

6               To provide relief in the manner suggested  
7       by the railways would require action by Parliament  
8       not only in the first instance but also by repeated  
9       votes of funds. Each such occasion would give rise  
10      to reproach against the grain producers of the  
11      prairies and each would bring into jeopardy the  
12      freight rates essential to the grain growing  
13      industry of the prairies.

14              If an excuse has to be provided for  
15      financial relief to the railways or a label pinned  
16      on such a contribution these might with equal or  
17      greater appropriateness be found elsewhere than the  
18      railways advocate. Each great geographic area in  
19      which the railways operate creates some difficulty.

20              For example, the mountainous terrain of  
21      British Columbia results in high costs for  
22      construction and operation but national policy  
23      requires the railways to charge no more than in  
24      level country. Someone might suggest a "mountain  
25      subsidy" to offset such facts.

26              The prairies are, in contract to British  
27      Columbia, low cost areas. The geographic  
28      disadvantage to the railways is that grain growing,  
29      the principal industry, is so remote from ultimate  
30      markets that its product can bear only a comparatively





1  
2 low freight rate.

3 East of the prairies there lies a great  
4 stretch of country relatively barren so far as  
5 producing traffic is concerned. Already there is a  
6 "bridge subsidy" in recognition of that fact.

7 Then there is the southern portion of the  
8 central provinces thickly populated and heavily  
9 industrialized, and originating a great deal of  
10 traffic. It might be ideal territory from the  
11 standpoint of the railways except for one handicap.  
12 Water and truck competition hold railway rates down  
13 to low levels. That fact could lead to a suggestion  
14 for a "canal subsidy" to the railways.

15 To the east again lies a great stretch where  
16 railway lines are long, where population is sparse  
17 and industry comparatively limited per mile of line.

18 Elsewhere there are areas or stretches  
19 of land where natural conditions result in a low  
20 density of traffic.

21 Thus, if railway operations need to be  
22 subsidized the subsidy might be called a geographic  
23 allowance by way of compensation for the nature of  
24 territory through which railways must be operated.

25 So also, suggestions have been put forward  
26 from time to time for a subsidy based upon losses  
27 in carrying passengers.

28 Still another possible basis is a military  
29 one. Railways are an essential part of Canada's  
30 defence system and have proved to be of enormous





1  
2 importance in that respect. Whatever economic  
3 disabilities may rest upon the system as a whole  
4 or on certain parts, that consideration would demand  
5 their maintenance.

6 It is not our purpose to say that the  
7 railways need assistance. Nor is it our purpose  
8 to suggest that if they do such assistance should  
9 be labelled as part of the defence budget nor do  
10 we suggest that the blame should be laid upon those  
11 who continue to travel as railway passengers or upon  
12 those who live in one area or another of Canada. We  
13 do not seek a scapegoat on whose head to lay all  
14 the difficulties of the railways. We simply  
15 protest against selecting the western grain traffic  
16 as such a scapegoat.

17  
18 ---Short recess.  
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1  
2 THE CHAIRMAN: Order, please.

3 You may sit down, Mr. Brownlee.

4 MR. BROWNLEE: My training in life has been  
5 such that I think I sometimes think a little bit better  
6 on my feet, and I would prefer to stand, if I may.

7 THE CHAIRMAN: It is your own pleasure.

8 MR. HUNTER: We were up to page 32 before  
9 the recess, section IX, entitled, "The Burden of Income  
10 Tax."

11 A. In the foregoing no objection has been taken  
12 to having recourse to the national treasury for allevia-  
13 tion of railway problems. What have been objected to  
14 are the avenues by which the railways seek to gain access  
15 to the national treasury. If overall railway problems  
16 are such as to require an approach thereto, by way of  
17 financial assistance, a much better approach is  
18 available which might well have your consideration.  
19 That is to remove a burden of taxation which now rests  
20 upon those who pay freight charges through the incidence  
21 of income tax nominally imposed on the railways but in  
22 fact resting upon railway customers.

23 The Board of Transport Commissioners, in  
24 allowing freight rate increases, has been accustomed  
25 to ignore financial problems of Canadian National. It  
26 has used the needs of Canadian Pacific as a "yardstick"  
27 for measuring revenue requirements and allowable  
28 rates. It has included as an expense income tax paid  
29 by Canadian Pacific on its rail revenues, thus in  
30 effect transferring the incidence of the tax from the





Brownlee, dir  
(Hunter)

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1  
2 railway to the shipper. This is to transform income  
3 tax from what it is intended and generally thought to be,  
4 a direct tax, into an indirect tax. Not all freight  
5 rates have been so affected; some, from their nature,  
6 have been immune from such a transferred incidence of  
7 tax. Quite probably the burden has for the most part  
8 rested upon those freight rates which have been subject  
9 to horizontal increases, which increases have been a  
10 matter of vigorous and continuing complaint.

11 Parliament has voted two separate subsidies  
12 to the railways to minimize general increases in freight  
13 rates. First was the so-called "bridge subsidy",  
14 covered by Section 468 of the Railway Act, dating from  
15 1952. This is permanent, providing \$7 million  
16 annually, to be divided between Canadian National  
17 and Canadian Pacific as an offset to the cost of main-  
18 taining trackage between eastern and western Canada,  
19 which amount is applied to reduce freight rates between  
20 those areas. The second subsidy, temporary, so far  
21 only for a single year, amounts to \$20 million divided  
22 between the two railways under the Freight Rates Re-  
23 duction Act of 1959. When it was provided the Board of  
24 Transport Commissioners was required to moderate to  
25 an equivalent extent the 17 per cent general increase  
26 in freight rates which the Board had previously  
27 authorized.

28 Presumably your Commission will consider  
29 whether or not to recommend renewal of the \$20 million  
30 subsidy and at the same time you may consider the





1  
2 desirability of continuing the \$7 million "bridge  
3 subsidy".

4 In your deliberations you may wish to take  
5 into account the incidence of income tax, to consider  
6 whether or not it is desirable first to burden freight  
7 rates with income tax paid into the national  
8 treasury and then to relieve them by subsidy paid there-  
9 from.

10 This subject was dealt with by Dr. Angus,  
11 a member of your predecessor Royal Commission, in  
12 his observation No. 36 appended to the report of  
13 that body in 1951, at page 292. He said:

14 "This tax, as at present imposed, is  
15 treated as part of the railways'  
16 expenses and therefore is passed on  
17 in freight rates to shippers or consum-  
18 ers. It is prima facie unreasonable to  
19 tax freight rates if these rates are  
20 considered too high, and it would be  
21 clearly unreasonable for the same  
22 authority first to tax them and then  
23 to subsidize them."

24 That was before Parliament had voted either of the two  
25 subsidies just mentioned. Either or both of those  
26 could have been avoided by giving weight to this ob-  
27 servation of Dr. Angus.

28 We suggest that your Commission might  
29 appropriately make a recommendation in this connection.  
30 That would involve an amendment to the Railway Act





1  
2 providing that in establishing a permitted level of  
3 railway rates the Board of Transport Commissioners  
4 should be precluded from allowing income tax as an  
5 expense to be covered thereby. A concurrent amendment  
6 to the Income Tax Act would be required, excluding  
7 from taxation railway income of those companies whose  
8 rates are subjected to regulation under the Railway  
9 Act.

10 The direct benefit of such provisions would  
11 accrue, and would be intended to accrue, not to a railway  
12 company or its shareholders, but to those who pay freight  
13 charges. The railway might well benefit indirectly,  
14 by an increase of traffic resulting from keeping freight  
15 rates at a lower level than otherwise would be required.

16 Such provisions would not relieve Canadian  
17 Pacific from paying income tax on its "other income".  
18 The relief it would appear to get in respect of rail  
19 income would be apparent only, since it does not now  
20 bear the burden of income tax on rail income, but shifts  
21 it to the shoulders of those who bear freight charges.

22 Such provisions would be no direct benefit,  
23 either real or apparent, to Canadian National, at least  
24 under present circumstances. That railway is, for the  
25 present at least, already immune from income tax, not by  
26 virtue of law but through experiencing operating losses.

27 If there is to be recourse to the national  
28 treasury for alleviation of railway problems we believe  
29 that such recourse will be acceptable to Parliament and  
30 to the public only as it results in keeping freight rates





1  
2 lower than would otherwise be the case. Precedent  
3 in that respect has already been set by Section 468 of  
4 the Railway Act and by the Freight Rates Reduction Act.  
5 We believe such procedure as suggested above would  
6 be better than the procedure embodied in those two  
7 legislative measures. We feel that it should be  
8 recommended in preference to any subsidy and in  
9 preference to any continuance of the Freight Rates  
10 Reduction Act.

11 Q. Do your references to the bridge subsidy  
12 imply any suggestion that it should be withdrawn?

13 A. Not at all. Freight reductions con-  
14 sequent upon the bridge subsidy have been incorporated  
15 in the freight rate structure of the country. There  
16 is no reason to disturb them or the basis for making  
17 them. But I do not think it should be made a pre-  
18 cedent for any similar subsidy intended to alleviate  
19 a particular rate situation. Any other subsidy,  
20 if found necessary, should be based on overall needs of  
21 a railway and not related to a particular segment of its  
22 business.

23 Q. Do you regard the subsidy under the  
24 Freight Rates Reduction Act as being on a different  
25 footing?

26 A. Decidedly so. The bridge subsidy was  
27 designed to be permanent. The \$20 million subsidy  
28 for the reduction of freight rates was intended to be  
29 temporary only pending the outcome of this inquiry.

30 Q. Are you able to say just what the effect





1  
2 on freight rates might be of adopting this suggestion you  
3 make with respect to income tax?

4 A. I could not even attempt to do so except  
5 to say that it would make it possible for many freight  
6 rates to be lower than they would otherwise be. Only  
7 experts on traffic and rates could calculate the  
8 probable effect, and even they might have to revise  
9 their opinions in the light of actual experience. I  
10 wished merely to state the general principle that at the  
11 present time income tax on rail income rests upon those  
12 who pay freight charges. If that burden is removed it  
13 will be possible for freight rates to be lower, in  
14 many instances, than otherwise would seem necessary.  
15 Complaints about the general level of freight rates  
16 have been numerous and frequent. The step I have  
17 suggested would tend to alleviate the complaints and  
18 confer upon those who pay freight charges some relief,  
19 corresponding in nature to that now afforded under the  
20 Freight Rates Reduction Act.

21 Q. Is your suggestion intended to preclude  
22 direct assistance by the government to the railways by  
23 way of subsidy?

24 A. Not at all. The tax suggestion is intend-  
25 ed for the relief of those who pay freight charges and  
26 not to improve the financial position of the railways.  
27 The Commission may find that there is need for some  
28 direct relief of the railways. I would not say anything  
29 to oppose such a finding.

30 My hope would be that if such need exists it





1  
2 would be temporary. In other words, our view is this,  
3 that the fundamental problem of the railways today is  
4 the revolution in transportation of goods and persons.  
5 The problem of the railways in meeting that challenge,  
6 we hope, will be transitory and that during this tran-  
7 sitional stage the railways may find means of adjusting  
8 themselves.

9 It seems to me that the railroads are in a  
10 transitional stage, adjusting themselves to a revolution-  
11 ary condition in transportation. It seems to me that  
12 they are making promising efforts to improve their  
13 position, partly by reorganization and partly by  
14 efforts to recapture lost traffic. I think there is  
15 room for further improvement by reducing unnecessary  
16 competition and I also think that growth in the  
17 national economy will help.

18 If, however, there is such a need my position  
19 is that it arises on an overall basis, from a multitude  
20 of difficulties and problems confronting the railways.  
21 I think a railroad must be considered as an organic  
22 whole, with its different functions closely integrated.

23 I have objected to singling out one segment  
24 of traffic as the source of financial difficulties of  
25 the railroads or as a basis for subsidy. I have not  
26 objected to recognizing that the railroads have  
27 financial difficulties or to some measure of subsidy  
28 on that account.

29 Section X -- Conclusion.

30 At the commencement of this submission it





1  
2 was indicated that the primary concern of United Grain  
3 Growers Limited in appearing here is to defend the  
4 present statutory grain rates in western Canada. In-  
5 cidental to that defense we have mentioned briefly  
6 various railway problems and the sources from which  
7 these arise, although without offering a solution to all  
8 of the problems. Our purpose in doing so has been to  
9 keep the grain rates in proper perspective and to show  
10 that the present difficulties and disabilities of the  
11 railways arise from many different causes.

12 You have heard some suggestions that these  
13 grain rates constitute an inequity in the freight rate  
14 structure and impose a burden on other users of railway  
15 services or on other industries. We have shown that  
16 there is no such inequity and no such burden requiring  
17 alleviation. We have, however, indicated one measure  
18 by which it is practicable to lighten costs of railway  
19 services now borne by those who pay freight charges.  
20 That is, to cease making railway freight rates an  
21 instrument of tax collection. Such a step we believe  
22 is to be preferred to any measures for paying subsidies  
23 as to which different suggestions have been made from  
24 various sources.

25 We have also shown that the grain freight  
26 rates in question do not constitute an inequity as  
27 against the railways. The inability of the railways  
28 to collect higher charges for the movement of grain does  
29 not arise solely from a contract between Canadian  
30 Pacific and the Government of Canada made in 1897.





1  
2 It has a wider base in a contract not to be found in  
3 a formal document, but nevertheless a real one, implied  
4 when grain producers of western Canada were persuaded by  
5 the Government of Canada and by the railways to undertake  
6 the enterprise of growing grain for export. You will  
7 excuse me if I seem to emphasize those words, but we  
8 do feel in eastern Canada that growing grain for export  
9 must continue to be one of the fundamental purposes of  
10 agriculture -- not for domestic use. Even apart from  
11 that consideration is the fact that the movement of  
12 grain simply cannot bear higher freight charges than  
13 those now prevailing -- and that is now admitted.  
14 Similar situations exist in respect of many other  
15 segments of traffic, as to which you have had abundant  
16 evidence.

17 We have found it necessary to challenge  
18 figures put before you purporting to show the cost of  
19 moving grain and that the cost is considerably higher  
20 than the revenues derived therefrom. We believe that  
21 neither can the figures be accepted as showing what  
22 they purport to show, nor that it is possible to arrive  
23 at figures which would accomplish that purpose.

24 Something more than ten years ago we found  
25 it necessary to appear before a previous Royal Commission  
26 in opposition to a proposal at that time advocated by  
27 the railways to deprive grain rates of their statutory  
28 status and to put them under the jurisdiction of the  
29 Board of Transport Commissioners. That recommendation  
30 was rejected. The wisdom of such a rejection is





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Brownlee, dir  
(Hunter)

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now generally recognized, and recognized by the railways themselves. Evidently they admit, in retrospect, that their former proposals were erroneous.

Similarly we suggest that in the future they will come to realize that the alternative and very different proposal put before your Commission was not soundly based.

We trust that you will find this submission useful in your deliberations.





UNITED GRAIN GROWERS LIMITED

SUPPLEMENTARY SUBMISSION TO  
ROYAL COMMISSION ON TRANSPORTATION

BRANCH LINES

Mr. Chairman and Commissioners,

Your attention has been drawn to applications from both railways pending before the Board of Transport Commissioners for leave for abandonment of certain branch lines in the prairie provinces. Our company has had occasion to oppose some such applications either on its own behalf or on behalf of communities which it serves. In view of the jurisdiction of the Board of Transport Commissioners it would not be in order to ask your Commission to consider merits of individual applications. Discussion of general principles would appear to be in order.

Section 168 of the Railway Act provides that a railway company may abandon the operation of any line of railway with the approval of the Board, but shall not do so without such approval. The same provision, in almost identical words, is found in the Canadian National - Canadian Pacific Act.

How the Board of Transport Commissioners has interpreted its duty in this respect is set forth in an official pamphlet, printed by the Queen's Printer





1  
2 in 1957, and entitled "The Board of Transport  
3 Commissioners for Canada, A Review of its Constitution,  
4 Jurisdiction and Practice." The author was Rod  
5 Kerr, Q.C. who at that time was General Counsel and  
6 has since become Chief Commissioner. An extract  
7 follows:

8 The rule followed by the Board in applications  
9 for leave to abandon such operation and applications  
10 involving serious curtailment or discontinuance of  
11 scheduled passenger train operations, was stated by  
12 the Board in V.V. & E.Ry. v. Princeton, 45 C.R.C.  
13 178 at 197, as follows:

14 " But this Board has uniformly decided  
15 that loss sustained by the railway company  
16 arising from the operation of a line of  
17 railway is not of itself sufficient to  
18 justify the abandonment of the line. It  
19 must also be shown that the community resident  
20 in the territory affected, and the industries  
21 established therein, will not be unduly  
22 inconvenienced or prejudiced by such action  
23 on the part of the railway company. In  
24 other words, it must be demonstrated that the  
25 local community will not be unreasonably  
26 deprived of access to their properties  
27 and to markets and to shipping facilities  
28 for their produce either by railway, high-  
29 way or other means of transport. The issue  
30 in each case where abandonment is sought





1  
2 resolves itself into a question of 'whether  
3 the loss and inconvenience to the public  
4 consequent upon the abandonment outweigh  
5 the burden that continued operation of the  
6 railway line involved would impose upon the  
7 railway company.' This was the decision  
8 pronounced by the Board in the recent case  
9 of C.N.R. v. Tweed(1935), 44 C.R.C. 53. In  
10 my opinion this decision constitutes a  
11 guiding principle for the determination of  
12 cases similar to that now under consideration."  
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2 The foregoing can be commended as a satisfactory  
3 legislation and a satisfactory statement of principles.  
4 A railway is not allowed to abandon a line simply  
5 because it might save money by so doing. Against any  
6 saving the railway might make by abandonment there must  
7 be weighed the loss and inconvenience to others which  
8 might result. Existence is recognized of vested  
9 rights which may have been established through past  
10 operation of a line in question, and the justice of  
11 protecting such rights.

12 Our own Company has observed the application  
13 of this principle in the past. We have opposed certain  
14 applications for abandonment, both on our own account  
15 and on behalf of local communities. We have seen  
16 some applications rejected by the Board in spite of  
17 claims by the railways that they could save money by  
18 abandonment.

19 Thus a railway may be required to give  
20 continuing service to a community which has come to  
21 rely upon that service, in spite of the railway's  
22 desire to discontinue it. That, in our view, does  
23 not establish and should not establish a claim for  
24 specific compensation in respect of any such line or  
25 for general compensation in respect to an aggregate  
26 of such lines. We believe it to be inherent in the  
27 nature of a Canadian railway system that some lines  
28 should produce much less revenue than other lines,  
29 that some lines should disappoint earlier expectations  
30 entertained for them, and that some lines should even





1  
2 be regarded by management as a drag on the system.

3 Except in one respect the present law, as  
4 it is presently administered, appears to provide adequate  
5 safeguards as to proposed abandonments for the interest  
6 of both railways and of communities they serve. The  
7 Board, of course, does not hear an application for  
8 abandonment without some period of notice to those who  
9 may desire to appear in opposition. But there is no  
10 provision for delaying a hearing or for delaying the  
11 effect of an order to provide time for those adversely  
12 affected to arrange their affairs or to adjust their  
13 operations in contemplation of a prospective abandon-  
14 ment. There may be cases where no such warning is  
15 required; in other cases a warning period of up to  
16 five years might be reasonable. The Board, in addition  
17 to its power to accept or reject an abandonment  
18 application, should have power to delay for an app-  
19 ropriate period either a hearing or an order for  
20 abandonment. On that account an addition to Section  
21 168 of the Act might be made in some such wording as  
22 the following:

23 The Board may postpone a hearing in this  
24 respect or the effective date of its  
25 approval, or both, to provide such total  
26 period of warning to those affected there-  
27 by as it deems proper.

28 I believe, sir, that concludes the  
29 review of our brief.

30 THE CHAIRMAN: Thank you, Mr. Brownlee.





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TORONTO, ONTARIO

Brownlee, cr-ex.  
(Cooper)

1  
2 Mr. Cooper?

3 CROSS-EXAMINATION BY MR. COOPER:

4 Q. Mr. Brownlee, I just have a few  
5 questions, the purpose of which is to obtain your views  
6 on a number of matters upon which you have touched in  
7 your submission to assist the Commission in its work.

8 I should like first to draw your attention  
9 to page 3 of your submission when you state:

10 "The main purpose of the  
11 appearance of United Grain Growers  
12 Limited at this time is to oppose any  
13 interference in the present status of the  
14 Crowsnest Pass rates.

15 "There are basic and primary  
16 problems faced by the railways much more  
17 serious and significant than the  
18 consideration of any one commodity rate."

19 Mr. Brownlee, it has been said by the  
20 railways that the Crow's Nest Pass rate problems is  
21 unique in that the railways at present are powerless  
22 to do anything about these rates because they are  
23 imposed by statute, whereas on the other hand other  
24 problems, such as passenger deficits and competition  
25 from other transport media, and the like, can be  
26 dealt with by managerial action or decision.

27 Now, do you consider that distinction a  
28 valid one?

29 A. No I don't sir, in this way; they  
30 still can go to a forum if they feel they are entitled





1  
2 to relief. What Parliament has done is changed that  
3 body to which they may go from the Board of Transport  
4 Commissioners to the Parliament of Canada, and it has  
5 done so for obvious reasons which I think were set out  
6 very briefly, very definitely and pertinently by the  
7 Prime Minister in the words which I quoted, and in  
8 my opinion if the railways feel that they should have  
9 some relief from the present rates or that the rates  
10 should be somewhat increased, they may go to the  
11 Parliament of Canada. I may remind you, sir, that  
12 back in 1929 - was it 1929?

13 MR. SINCLAIR: 1922.

14 THE WITNESS: In 1922 Parliament did change  
15 the rates for a stated period at a time when we were  
16 selling western grain, No. 1 f.o.b. Fort William, for  
17 a price which permitted the Wheat Board to distribute,  
18 I think, \$2.67 per bushel in 1919 to the producers,  
19 and my answer is that it is not correct to say that  
20 they are powerless; they have a body to which they can  
21 go.

22 Q. When the word "powerless" is used,  
23 I think it is used in this case when there is a legal  
24 restraint by act of parliament in so far as the Crow's  
25 Nest Pass rates are concerned, but no such legal  
26 restraint by act of parliament except in so far as  
27 there may be applicable regulations in the solution  
28 or obstructing the solution of other problems.

29 A. I think my answer would have to be  
30 that there is a greater restraint undoubtedly than with





Brownlee, cr-ex.  
(Cooper)

1  
2 respect to other commodities, and that restraint is  
3 there because of national policy in the interests of  
4 the whole of Canada.

5 There are other restraints that are imposed  
6 upon them with respect to rates by regulation; they  
7 must go to the Board of Transport Commissioners. I am  
8 not prepared to say that under present conditions they  
9 are deprived entirely of any redress; certainly they  
10 can't go on their own volition, and in some respects  
11 they can't go on their own volition with respect to  
12 others. They must go to the former.

13 Q. Mr. Brownlee, I would like to go  
14 along to page 5(a), and on that page and on the  
15 succeeding page, page No. 6 you refer to two railway  
16 problems and cost of problems, the first of which is  
17 on page 5(a) and it is No. (2) "Competition and Railway  
18 Service", and the next, (3) on page 6 "Competition  
19 between Private and Public Ownership".

20 You state on page 6:

21 "Only in North America are there  
22 competing railways. Elsewhere in the  
23 world railways are monopolies of  
24 government."

25 Now, I realize that in other parts of the  
26 submission you state that you don't think that at the  
27 present time the country is, shall I say, ripe for  
28 any unification of railways, but I should like to  
29 obtain your views on this point. Do you consider  
30 that the railways should be unified and brought under one





1  
2 management, whether that management and control be  
3 private or whether it be government controlled?

4 A. Well, Mr. Cooper, you are asking me  
5 a very difficult question there, of course, and one  
6 on which there is a tremendous amount of difference  
7 of opinion. I suppose if a vote were taken among  
8 our 60,000 members you would find them split very  
9 widely on the question. As far as I am personally  
10 concerned I say no, the time is not ripe for a move  
11 of that kind. I would personally regret very much  
12 to see it brought about. I wouldn't be honest if I  
13 didn't say it, and in looking to the future I am  
14 somewhat alarmed that that eventuality may become a  
15 much greater issue than it is at the present time,  
16 but you asked my opinion personally and I gave it as  
17 my opinion and not necessarily the opinion of my whole  
18 organization.

19 I prefer the present state of affairs with  
20 competition and with the hope that the problem of  
21 the railways could be resolved in such a way that the  
22 Canadian Pacific could remain as a private corporation  
23 and that we would have a public corporation as it is  
24 now.

25 Q. You consider, then, that there are  
26 inherent advantages in the competitive system as we  
27 presently have it between a privately owned line and  
28 a publicly owned line?

29 A. I think you are drawing a conclusion  
30 from what I have said that is not quite justified, if I





Brownlee, cr-ex.  
(Cooper)

1 might say so.

2 Q. I don't want to draw any conclusions  
3 which you don't want to draw.

4 A. It is our opinion that competition  
5 as we have known it in the past is not now necessary.  
6 We would prefer to advocate greater cooperation and  
7 greater getting together of the two railway lines  
8 rather than to leave the impression that we are asking  
9 for a continuance or that I recommend a continuance  
10 of the present system simply because of competition.

11 I rather look at it this way, that historically  
12 in keeping with our general tradition as a people and  
13 our belief in certain fundamentals of the economy of  
14 the country, that for the time being I would prefer  
15 to see the railways remain as they are but eliminate  
16 still much of the competition that has taken place  
17 between them; working together jointly to see to what  
18 extent they can overcome the problems that face the  
19 railway industry today. Not strong competition,  
20 but rather a cooperative effort between two different  
21 types of organizations.

22 Q. Am I correct in my understanding,  
23 Mr. Brownlee, that the suggestion of United Grain  
24 Growers Limited to bring this about is with --

25 A. I didn't get that.

26 Q. Am I correct in my understanding that  
27 the specific suggestion of United Grain Growers Limited  
28 to bring about a lessening of that competition and more  
29 cooperation is in a revision or added sections to the  
30





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14223

Brownlee, cr-ex.  
(Cooper)

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Canadian National and Canadian Pacific Act making  
such cooperation mandatory on the two railways?





1  
2 A. Well, my understanding is that in  
3 the present legislation there is a direction, and  
4 that it is rather a matter of trying to work out the  
5 greater cooperation which is contemplated by present  
6 legislation. How that can be done, I am not sure,  
7 but at the bottom of page 6 you will notice that we  
8 say this:

9 "Such results, however, have  
10 been limited and the reason may be that  
11 it is difficult for a privately owned  
12 and a publicly owned system to reach  
13 common ground. If such is found to be  
14 the case perhaps the legislation could  
15 be amended so that steps in this  
16 direction would be mandatory to a greater  
17 extent than is now the case."

18 Whether that is necessary or not, I am not prepared to  
19 say.

20 "Special organization might be  
21 provided for continuous study of  
22 possible economies, perhaps by having  
23 the Board of Transport Commissioners  
24 set up a department for the purpose,  
25 with a duty imposed upon that Board  
26 to report directly to the Governor-in-  
27 Council."

28 I don't know whether that is practical or not, but  
29 we throw it out as illustrating what we have in mind,  
30





Brownlee, cr-ex.  
(Cooper)

1 and that is, some way of bringing these two organizations,  
2 publicly-owned and privately-owned, together to see  
3 if greater economies can be provided in the operation  
4 of their respective systems.

5 Q. As I understand it, you commend that  
6 subject for very serious study by the Commission, and  
7 you have done what you can to make a suggestion to  
8 assist them?

9 A. That is what we have tried to do, yes.

10 Q. At page 6, Mr. Brownlee, you raise  
11 the question, "Can railway transportation be a profitable  
12 industry?", and you say, "Implicitly in much discussion  
13 of railway freight rates is an assumption that railway  
14 transportation both should be and can be a profitable  
15 industry, yielding a sufficient margin over operating  
16 expenses to pay a satisfactory return on capital  
17 invested in the past."

18 Is there any suggestion here in this  
19 paragraph that a railway policy designed to enable the  
20 railways to attain to and keep in a financially healthy  
21 condition is a mistaken policy?

22 A. I think our position, rather, is  
23 that while naturally we would like to see the railways  
24 in a healthy financial position, still with expanding  
25 costs, continuing inflation, continuing wage costs,  
26 that we may come to a point where it is not possible  
27 to do so, and in the interests of our whole economy,  
28 and not just part of it, it may be necessary for some  
29 other organization -- I mean the State -- to assume part  
30



Brownlee, cr-ex.  
(Cooper)

1 of the burden in order to keep freight rates down to  
2 a point where traffic will move, because we prefer to  
3 see the traffic as much as possible kept on the  
4 railways.

5 Q. I think you have already said -- and  
6 correct me if I am wrong -- in your direct evidence  
7 that United Grain Growers Limited has no inherent  
8 objection to the payment of subsidies to the railways?  
9

10 A. Not at all. We have not objected  
11 to the temporary subsidy and, frankly, looking at  
12 all the problems of the railways today, their overall  
13 problems, and what we see going on right at this  
14 moment, that is, the application for and the probability  
15 that other rather substantial increases will have to  
16 be granted, we wonder -- at least, I wonder if we are  
17 not rapidly approaching the time when we have to admit  
18 that in a transitional stage in any event -- whatever  
19 the long future may be -- the railways cannot operate  
20 at a profit, and some other form of assistance must  
21 be granted.

22 Q. Thank you, Mr. Brownlee. At page 8  
23 you refer to passenger service. You expanded that  
24 paragraph somewhat in your direct evidence, but I  
25 should like to ask you one or two questions concerning  
26 it. The paragraph reads:

27 "It is inherent in the nature of  
28 a railway that it should provide passenger  
29 service, and in most places continue to do  
30 so in spite of shrinkage in volume of passenger





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Brownlee, cr-ex.  
(Cooper)

1 business, and even when such service  
2 becomes a source of expense rather than  
3 a source of revenue".  
4

5 Do you consider that the present policy governing  
6 abandonment of passenger service or serious curtailment  
7 of passenger service is a satisfactory policy? That  
8 policy is contained -- or a statement of it -- in Mr.  
9 Kerr's article in the Canadian Bar Journal to which  
10 you have referred, and at page 58 of that article Mr.  
11 Kerr mentions not only abandonment of any line of  
12 railway but also applications involving serious  
13 curtailment or discontinuance of scheduled passenger  
14 train operations. The citation is an article  
15 entitled, "The Board of Transport Commissioners for  
16 Canada", and what I have in my hand is a reprint of  
17 the article from the Canadian Bar Journal for February,  
18 1958.

19 THE CHAIRMAN: I think the Commission has  
20 this in pamphlet form.

21 MR. COOPER: That is correct, Mr. Chairman.  
22 The words which I read are contained on page 58. To  
23 go back to the question, do you consider that  
24 abandonment policy as it applies to passenger service  
25 presently satisfactory?

26 A. Well now, Mr. Cooper, first of all  
27 I recognize the very high authority from whom you have  
28 quoted, and naturally I would hesitate to set up my  
29 judgment against his. I take it you are referring  
30 now to passenger traffic and curtailment of passenger





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Brownlee, cr-ex.  
(Cooper)

1 traffic?

2  
3 Q. That is correct.

4 A. Quite frankly I don't agree with  
5 what is being done. I want to be careful what I say  
6 because I obviously am not a railway man and I don't  
7 begin to understand the difficulties that may confront  
8 the railways, but may I illustrate: within the past  
9 few weeks an announcement has been made by the two  
10 railways that they are taking off trains which move  
11 east and west at about the same time so as to leave  
12 the two railways operating trains moving east and west  
13 at approximately the same time, starting from the  
14 same point, ending at the same point. I don't like  
15 it -- as one who prefers still to use the railways than  
16 to use the plane. I think that some other method of  
17 cooperation is possible between these two railways by  
18 which, through a cooperative effort of setting up  
19 possibly some organization to do this -- I don't know --  
20 to operate sleeping cars -- I think it is possible to  
21 provide a better passenger service east and west with  
22 some change in time rather than in the agreement which,  
23 as I understand it, has been reached. No, I don't  
24 agree myself fully with what is being done to curtail  
25 passenger service. I am not going to say for one  
26 minute that the curtailment of passenger service is  
27 not necessary. Mr. Gordon, I believe, in speaking  
28 in the House of Commons to the committee -- if I could  
29 have the statement he made, I know I have it on file --  
30 I think he rather intimated that they had a committee,





Brownlee, cr-ex.  
(Cooper)

1  
2 a joint network between the two railways trying to  
3 arrive at that very thing which would be an alternation  
4 of time of trains or rerouting of trains in such a  
5 way that would give many people in Canada who still  
6 like to ride on trains a better facility for doing it  
7 than what would seem to be the result of the efforts  
8 now being made.

9 THE CHAIRMAN: Your objection is not to the  
10 substance but to the form.

11 THE WITNESS: The method that is being used.  
12 And now, have I made myself clear, Mr. Cooper?

13 MR. COOPER:

14 Q. As I understand what you have said,  
15 Mr. Brownlee, you are not objecting to the curtailment  
16 or abandonment of a passenger service when it is  
17 clearly indicated that such must be done but you are  
18 of the view that such curtailment or abandonment might  
19 not be necessary if the railways cooperated more than  
20 they are now doing to create alternative times of  
21 travel.

22 A. May I sum up what I am trying to  
23 say a little differently?

24 Q. Yes.

25 A. I do not object and I think it is  
26 necessary that there should be some and probably  
27 considerable curtailment of railway traffic because we  
28 all must have common sense enough to see what is going  
29 on in the world around us with the use of the motor  
30 car and buses and so forth. I am inclined to think





Brownlee, cr-ex.  
(Cooper)

1  
2 that the railways are pushing the curtailment a little  
3 too rapidly in some places. I do feel that these  
4 two great trans-continental systems could look over  
5 the territory east and west and the general movement  
6 of passengers east and west and that they, by proper  
7 getting together and setting up the necessary  
8 administrative machinery to do it, could provide a  
9 better accommodation than I fear is going to result  
10 from the policy which now seems to be carried forward.  
11 I do not know that I can express my opinion any more  
12 clearly than that.

13 Q. Thank you, Mr. Brownlee. Now, on  
14 page 15 you have a paragraph which reads as follows:

15 "National policy in this respect  
16 was emphasized again in 1919. To meet  
17 what was considered a temporary emergency  
18 arising from war-created conditions, the  
19 Railway Act was amended to extend the  
20 jurisdiction of the Board to all rates.  
21 Temporary increases in grain rates resulted,  
22 warranted by high grain prices then  
23 prevailing."

24 Am I to assume from that or to infer from  
25 that, Mr. Brownlee, that if grain prices did increase  
26 there would be justification for an increase in the  
27 statutory grain rates?

28 A. Well now, Mr. Cooper, I would have to  
29 answer that in this way: we look upon the Crow's Nest  
30





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Brownlee, cr-ex.  
(Cooper)

1 Pass rates as a bargain made between the government,  
2 the railways and the settlers, resulting from  
3 bargaining and commonly quoted in the west as the  
4 Magna Carta of the grain growing industry. The very  
5 basis of this application of the railways today is  
6 that at the moment the rates are all that the traffic  
7 will bear. I cannot see in the foreseeable future  
8 any change in the situation and when I say "the  
9 foreseeable future" I would take a period of from five  
10 to ten years until such time as western producers  
11 can find markets for their grain yielding a much  
12 better price than is being paid at the present time.  
13 I can see no change in the situation. We must insist  
14 on our rights under the Crow's Nest pact, whatever it  
15 was. Now, looking at a five or ten year period I  
16 am not prepared to say; I don't know what the  
17 circumstances might be. I do not know whether we  
18 are going to have continued inflation or what may be  
19 the result and I would prefer to leave my answer just  
20 in this way that for the foreseeable future I cannot  
21 see anything arising which would justify a departure  
22 from the Crow's Nest Pass rates and the Crow's Nest  
23 Pass agreement.

24  
25 Looking to the long, long future, it will  
26 depend entirely, as I see it, upon a great number of  
27 things and it may be that the time will come when they  
28 produce, the western farmer would say as he did back  
29 in 1919, that with conditions as they are now we are  
30 not prepared to and we will not object to some increase





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Brownlee, cr-ex.  
(Cooper)

1  
2 in the rates which we now pay because we think the  
3 general economy of the grain grower and the grain  
4 producer will warrant it.

5 THE CHAIRMAN: We will adjourn for lunch  
6 now until 2:00 o'clock.

7 ---Luncheon adjournment.  
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3 --- On resuming at 2.00 p.m.  
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5 THE CHAIRMAN: Order, please. Mr. Cooper?

6 CROSS-EXAMINATION BY MR. COOPER (cont'd)  
7

8 Q. Mr. Brownlee, may I direct your attention  
9 to page 17 of the submission. Words occur on page 17:  
10 "The statutory grain rates in question  
11 were not established nor have they been  
12 maintained for the purpose of giving to  
13 one set of individuals benefits denied to  
14 others or at the cost of others." But has  
15 not the effect of the statutory grain rates been to  
16 give the one set of individuals benefits at the cost of  
17 others, Mr. Brownlee?

18 A. Looking at it in a broad way I would say  
19 No. There are a number of answers that I could give  
20 to the question which you have asked. To the first  
21 place, of course, it is admitted now, and it is part  
22 of the basis of the application, that the rates are  
23 all that the traffic will bear, and, therefore, there  
24 could be no prejudice. But, in any event, I think we  
25 go on and answer your question a little bit further on,  
26 where we say that the rates were established as part  
27 of a national policy to develop western Canada; and,  
28 in my opinion, the results to the whole economy of  
29 Canada from the present grain rates completely over-  
30





1  
2 shadows any argument that might be raised that there  
3 has been an unfair impact of the rates.

4 Q. I realise, Mr. Brownlee, that later on  
5 you do give an answer to the question I have raised,  
6 but that answer seems rather to be made from an  
7 historical basis and, if I might say so, is made also  
8 on a very general basis.

9 The point that I wanted to reach is whether  
10 or not, as conditions are today, the benefits enjoyed  
11 by the grain shippers in the statutory grain rates  
12 are not enjoyed at the expense of other shippers who  
13 are paying higher rates to the railways because of the  
14 statutory grain rates in moving grain to export positions  
15 in western Canada?

16 A. Well, Mr. Cooper, could you not with  
17 equal force raise that question in relation to all of  
18 the rates which, for competitive reasons or others --  
19 agreed rates -- have been cut below the level which  
20 the railways charge other commodities. In Canada, with  
21 the situation which prevails, you can't have, in my  
22 opinion, a situation where the shipper of one commodity  
23 will not be able to look at the other and say:  
24 "Well, they appear to enjoy some advantage." You  
25 have to look, first of all, to national interest; you  
26 have to look to the realities of the situation.

27 There are commodities today being carried  
28 at agreed rates that at the best, according to the  
29 railways, meet the variable cost. I can't see that  
30 lumbermen or anyone else would have the right to direct





1  
2 criticism of that kind against the Crow's Nest rates  
3 any more than they would against some of these other  
4 rates which, of necessity, has to be cut in the interest  
5 of the railways and, probably, in the interest of the  
6 nation.

7 I will say this -- that I think it is worthy  
8 of consideration -- that there is no commodity which  
9 brings to other classes in society a greater return  
10 than the Crow's Nest. Manufacturers across Canada  
11 would not be doing the work they are doing today if  
12 they had not had the Crow's Nest rates; and, in my  
13 judgment, these rates are justified if for no other  
14 reason than they have built up the economy in the west,  
15 which has helped to preserve the whole economy of  
16 Canada -- and at a time when they need it.

17 Q. Am I correct in my understanding, Mr.  
18 Brownlee, that your position is that the railways could  
19 not, in any event, charge any higher rates for move-  
20 ment of grain to export positions in western Canada  
21 than are provided at present in the statute?

22 A. Well, as I understand it -- and I am  
23 very much an amateur at it -- but on the principles  
24 of rate-making, one of the principles is that a  
25 commodity cannot be charged with a higher rate than  
26 the traffic will bear, and there has been evidence  
27 before this Commission that that is the case at the  
28 present time. In fact, I think one of the witnesses  
29 for the railway company said that if they tried to  
30 raise the rates it would only serve to drive away





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Brownlee cr-ex  
(Cooper)

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1  
2 a lot of the smaller farmers and put them out of  
3 business in western Canada. And at the present time  
4 I cannot see why any shipper of any other commodity  
5 can complain about the Crow's Nest rates, admitting  
6 the fundamental principle that they are as high as  
7 the traffic will bear.

8 Q. Could one go further and say that if  
9 those rates are as high as the traffic will bear then  
10 repeal of the 1925 legislation establishing those  
11 rates would have no practical effect?

12 A. Well, now, Mr. Cooper, I hope you won't  
13 draw that conclusion from anything I have said.

14 Q. I am not drawing any conclusion...

15 A. I hope you won't draw even that inference  
16 from what I said.

17 Those rates are there; they are there for  
18 a reason -- a historical reason. The protection which  
19 they give, not only today but tomorrow, is treasured  
20 by the farmers of western Canada. We don't know  
21 what tomorrow will bring. We are just seeing how  
22 it is at the moment; and so far as I can see for the  
23 next four or five years anyway the rates are as high  
24 as the traffic would bear.

25 Conceivably you may be correct in saying  
26 that the repeal wouldn't result in much difference  
27 in the next four or five years, but other circumstances  
28 may arise. The farmers of western Canada consider  
29 those rates very precious to them. They are safe-  
30 guarded, and any attempt to interfere with them in





Brownlee cr-ex  
(Cooper)

1  
2 any way would be most repugnant to all of the farmers  
3 in western Canada -- and I think I can speak for every  
4 farmer in western Canada when I say that.

5 Q. Mr. Brownlee, you haven't touched at all,  
6 in your submission, on movements of grain by trucks,  
7 or movements which might be possible in the future.  
8 Could you give the Commission your views as to the  
9 possibility in the future of movements of grain to  
10 a significant degree by road transport?

11 A. I could not venture to speak with any  
12 more authority than anyone else in this room. We  
13 do know this, that five years ago the idea of sending  
14 the grain by truck was not known in the west and I  
15 doubt if anyone in the west expected that it would take  
16 place. The fact remains that, today, from our two  
17 elevators at Creston and Wyndell, British Columbia --  
18 or, I will say, those two points, Creston and Wyndell,  
19 British Columbia, at which we have elevators --  
20 that the greater part of the product of that territory  
21 is now moving by truck to the Pacific coast.

22 I had occasion a week or ten days ago, firstly,  
23 to inquire into the length of movement and, secondly,  
24 in to the cost of the movement, and the information  
25 I received was that the haulage people who are drawing  
26 say their haulage is somewhere up to 590 miles and  
27 that their cost works out at something less than 2  
28 cents per mile. Now, this has become a reality.

29 Then, as I travel across Canada and the United  
30 States by car, as I frequently do, and see what can





1  
2 be done with the haulage of grain by trucks once  
3 you have a consolidated and strong road bed, I am  
4 constantly amazed and I cannot help but wonder if  
5 we are deceiving ourselves today in thinking that, after  
6 all, that cannot take place in western Canada. It  
7 isn't too far from Manitoba to the head of the lakes,  
8 and it isn't too far from Alberta to the Pacific coast,  
9 and if you get the trans-Canada with an excellent  
10 road bed why can't the same thing happen with trucks as  
11 happened with railway cars? Today a railway car --  
12 a 60-ton car -- as I understand it, has a general  
13 frame that is not very much heavier than the 40-ton  
14 and yet it can carry very much more grain. Why can't  
15 we have a similar situation with regard to trucks?

16 So far as I am concerned I think, possibly, the best  
17 way I can explain the situation is that not so long  
18 ago I discussed with the manager of our terminal  
19 elevator the repairs we are now making and whether we  
20 should make provision for the unloading of trucks.

21 Q. Let me put it this way, that we have,  
22 in the past five years, seen a significant movement...

23 A. ...from the Pacific coast, yes; I would  
24 say that -- to the Pacific coast. I would say that  
25 70 per cent of the grain moved down in that area in  
26 British Columbia around Creston now finds its way to  
27 the Pacific coast by truck; and a considerable amount  
28 of grain is finding its way from Dawson Creek and Fort  
29 St. John by truck, and, as yet, the roads are not too  
30 highly developed.





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Brownlee cr-ex  
(Cooper)

1  
2 I can only say that that is what has  
3 happened in the last few years and what may happen in  
4 the next ten I can't tell you.

5 Q. It would appear you would expect that  
6 movement by truck to grow?

7 A. In my estimate of the future I would  
8 say that is a distinct possibility.

9 Q. I want, in this connection, just to swing  
10 back, if I might, to page 4 of the submission. On  
11 that page you refer to automobiles as thronging  
12 "...the highways on road beds constantly being im-  
13 proved and developed at the expense of the State,"  
14 and then you refer to planes "...steadily improving  
15 comfort, speed and frequency of travel... and with  
16 the benefit of terminal facilities provided by the  
17 State." You conclude this paragraph on page 4 by  
18 saying: "The results of these developments have  
19 made serious inroads into railway traffic."

20 Do you consider, Mr. Brownlee, that the  
21 State should recover its expenditures on highways and  
22 air facilities from the users of these facilities?

23 A. My answer to that has to be this:  
24 Theoretically, yes; practically, I don't see how it  
25 can be done. When you take the tremendous network  
26 of roads federally built, provincially built and  
27 municipally built then all the provinces of Canada,  
28 and particularly in the west -- 200 miles north and  
29 south -- a great area -- and many hundred miles east  
30 and west -- how could you get any regulation more





1  
2 than the present one whereby the licencee from here  
3 to here is gauged according to the weight of the car  
4 and its ability to carry, and from that you have a  
5 certain amount of return to the State -- I don't know,  
6 for myself, how you can go much further.

7 THE CHAIRMAN: And the gasoline tanks.

8 THE WITNESS: Yes; thank you for calling  
9 my attention to that.

10 Now, I am prepared to go one step further  
11 and state a personal opinion that I would be glad to  
12 see the State recover more, because as a citizen  
13 travelling on the highways I think that the use that  
14 is being made of them today by trucks is imposing a  
15 tremendous financial burden on the taxpayers, and I  
16 would be very glad if some practical scheme could be  
17 worked out whereby they would make a somewhat larger  
18 contribution than they do today.

19 MR. COOPER: Q. Your present view is  
20 that in theory the users should pay for the highways,  
21 but in practice you don't see how it can be done to  
22 a greater extent?

23 A. In a democratic State such as we have,  
24 where the voter is supreme, I don't know how you can  
25 do it.

26 Q. You were directing your attention thus  
27 far, I think, Mr. Brownlee, to highways. What  
28 about air terminals -- facilities that are provided  
29 for aircraft by the State? Should those facilities  
30 be paid for by the users?





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Brownlee cr-ex  
(Cooper)

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1  
2           A. Well, again, theoretically I would agree,  
3 and I assume that they are to some extent. I don't  
4 know. I am sorry that I can't speak on that subject  
5 because I never inquired as to whether the Canadian  
6 Pacific or Trans-Canada -- whether they pay a rental  
7 at Edmonton or Winnipeg, and what the return is I don't  
8 know; but I would suggest that they do make a contribut-  
9 ion in some way.

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2 Q. Coming back, Mr. Brownlee, to page 17;

3 Section V deals with railway land grants. It has been  
4 my understanding, and you correct me if I am wrong,  
5 that there is no direct connection between the land  
6 grants with which you deal in Section V and the  
7 statutory grain rates?

8 A. Correct. The land grants are not linked  
9 up with the Crowsnest Pass when the contract was  
10 made. The land grants were a consideration to the  
11 railways to encourage them to develop their lines in  
12 western Canada, but when you have admitted that, then  
13 you have also admitted this, I think, that in as much  
14 as the production and movement of grain is a very, very  
15 large part of the economy of western Canada, that  
16 indirectly those land grants are a contribution to the  
17 railways, but let us leave it at this in direct reply  
18 to your question, that I admit that the land grants  
19 were linked up only when the agreement of 1831 was made,  
20 when the Canadian Pacific was encouraged to build the  
21 lines. We have a saying, you know, in the west --  
22 some of us -- that Kipling said, "If people pay the price  
23 of Admiralty, thank God we have paid it in full." In  
24 the west we think if land grants are the price of  
25 transportation facilities, we have paid it in full.

26 Q. Coming now to page 19, Mr. Brownlee, and  
27 dealing with Section VI. I am just asking this question  
28 to clear up what I understand the first sentence of  
29 your Section VI---

30 A. What was the page, again?





1  
2 Q. Page 19, Section VI; what inequity -- what  
3 burden? The first sentence reads:

4 "Your Commission is to consider inequities in the  
5 freight rate structure and burdens which arise  
6 from obligations and limitations imposed by  
7 law upon railways for reasons of public policy."

8 And the paragraph then continues:

9 "Undoubtedly the statutory grain rates con-  
10 stitute one of such limitations, although  
11 there are also others. You have heard  
12 suggestions that the statutory grain rates  
13 constitute an inequity against shippers of  
14 other commodities or result in a burden on  
15 those not engaged in producing grain for  
16 export. Where then are we to find the  
17 injury or the injured?"

18 Directing your attention first, Mr. Brownlee, just to  
19 the first sentence of that paragraph, you have reference,  
20 if I am correct, to the first of the specific matters  
21 mentioned in the Order-in-Council constituting the terms  
22 of reference of this Commission; that is, the word,  
23 "inequities in the freight rate structure" refer to  
24 (a) of the Order-in-Council constituting the terms of  
25 reference?

26 A. Yes, I think I would agree. I think it is  
27 sub-section (a) isn't it? It deals with the inequities  
28 in the freight rate structure, and it has to do with the  
29 various regions of Canada and the legislative and other  
30 changes which should be made, and I think probably a





1  
2 greater part of what we have here refers more directly  
3 to that.

4 Q. The second part of the sentence, "burdens  
5 which arise from obligations and limitations imposed  
6 by law upon railways for reasons of public policy."  
7 refers to the paragraph lettered (b) in the Order-in-  
8 Council constituting the terms of reference?

9 A. Yes.

10 Q. Do I understand you then to go on and say  
11 with respect to this paragraph (b) of the terms of  
12 reference, that the statutory grain rates do constitute  
13 one of such limitations, as that word "limitations" is  
14 used in paragraph (b) of the Order-in-Council constituting  
15 the terms of reference?

16 A. Oh, I would say that it is a statutory  
17 limitation, yes; I think we have to look at it as such.

18 Q. And the rest of your section there deals---

19 A. But in saying that I don't admit that there  
20 is an inequity, because we deal with that elsewhere in  
21 our brief.

22 Q. Yes, I am only dealing in my last question  
23 just with reference to (b) of the Order-in-Council  
24 constituting the terms of reference.

25 A. Yes.

26 Q. But when you go on in Section VI to develop  
27 what you touch upon in the first paragraph, you deal  
28 only with the inequities in the freight rate structure  
29 or with the argument that there is an inequity in the  
30 freight rate structure, and you don't deal with the (b)





1  
2 paragraph of the terms of reference?

3 A. I think that statement is well taken, yes;  
4 I think that is sound.

5 Q. Section VII of your submission deals with the  
6 cost of moving grain. I understand, Mr. Brownlee, that  
7 United Grain Growers Limited in conjunction with the three  
8 pools have retained railway costing experts whose find-  
9 ings will be put in evidence in due course on this  
10 subject; that is correct, is it not?

11 A. That is correct, that United Grain Growers  
12 with the three pools have retained Mr. McKinnie, and  
13 through him certain expert advice, and that they are  
14 working on a cost study. I am not prepared to say today  
15 what the result of that will be or how it will be used.  
16 I understand that we are called together from time to  
17 time, and I understand we will be called together again  
18 in the near future, and at that time a decision will be  
19 made as to how the results of the study will be used.

20 Q. The study would embrace such matters as you  
21 have referred to in Section VII, as I understand it;  
22 for example, the definition of "cost" and that sort of  
23 thing?

24 A. I am not prepared to say at the moment, sir;  
25 I am sorry, really.

26 Q. That is quite all right.

27 A. Because as yet I haven't seen the complete  
28 study -- the results of the complete study, and I can't  
29 say what it covers.

30 Q. My only purpose in raising this---





1  
2 A. We have tried to keep away from it ourselves,  
3 and are leaving it to them and presumably they will be  
4 dealing with it.

5 Q. My only purpose in raising it now is that  
6 the matters dealt with in Section VII, as I understand  
7 it, will come before us perhaps in greater detail later  
8 on, and therefore I don't intend to ask you any questions  
9 about it at this time.

10 A. Well, if I know Mr. Frawley, it will come  
11 before you.

12 MR. FRAWLEY: If we live so long!

13 THE WITNESS: I think the provinces are making a  
14 study as well as the pools, and I would assume that these  
15 things would come before the Commission in some form.

16 MR. FRAWLEY: Some of the provinces.

17 MR. COOPER: Q. I am along to page 32 and Section  
18 IX dealing with the burden of income tax. I just want  
19 to summarize what I understand to be your proposal here,  
20 Mr. Brownlee, to make sure that I understand it and that  
21 it is clear to the Commission. The position taken by  
22 United Grain Growers Limited is simply this; that  
23 income tax should not be allowed as an expense to the  
24 railways in arriving at a permitted level of railway  
25 rates?

26 A. Should not be included as a matter of expense  
27 by the Board of Transport Commissioners, yes sir.

28 Q. And the next step would be that the Income  
29 Tax Act would be amended so that the railways would not  
30 pay income tax on railway earnings?





1  
2 A. On earnings of the railway, yes sir,  
3 as a public utility.

4 Q. Do you consider, Mr. Brownlee, that  
5 if such a proposal were given legislative effect, it  
6 might open the door to claims from other segments of  
7 the transportation industry or other industries for  
8 income tax relief?

9 A. Well, I have been long enough in  
10 public life to know that whenever somebody tries to  
11 do something like this, there are always others that  
12 would like to come under the umbrella too, but it seems  
13 to me that there is a clear distinction here that the  
14 railways are definitely public utilities, and under  
15 government control as such, and I am simply laying  
16 down the proposal that where you have a public utility  
17 of that kind, that if the public can be helped by  
18 keeping rates down by the government relieving the  
19 utility from the imposition of income tax, that there  
20 is a good reason why it should be done and I don't see  
21 that any embarrassing situation would result.

22 Q. Might not an embarrassing situation  
23 arise with respect to the trucking industry?

24 A. No, I can't see that. The trucking  
25 industry is not the kind - in my opinion - in the near  
26 future to be made a public utility under government  
27 regulation. It can be licensed, and through a  
28 licensing system you can make certain regulations such  
29 as security to customers and safety regulations, but  
30 having regard, as I said a while ago, to the magnitude  
and widespread in our highway systems even in western





1  
2 Canada and our constitutional problem which, of course,  
3 you know so well, I cannot see that they can possibly  
4 put themselves in a position in which they could make  
5 the same claim along with the railway companies.

6 Q. I believe it is correct to say that  
7 the trucking industry, from the evidence we have had here,  
8 seem to be bending more and more towards the position  
9 where they wish control over rates, and that sort of  
10 thing, and a much closer measure of control than it  
11 had in the past, provided the constitutional difficulty  
12 could be overcome. Would you not consider that that  
13 would place them much in the same position as the  
14 railways?

15 A. I still think from the realistic  
16 standpoint that the problem of administration is an  
17 important one, or at least an extremely difficult one,  
18 and I think there are all kinds of questions which will  
19 arise. For example, the tendency nowadays for mills,  
20 manufacturers, sellers of goods, oil companies manufacturing  
21 propane gas, to deliver to the farmer at his farm; it has  
22 become big business and it will be bigger.

23 Now, I just can't see how you can fit all  
24 these things into a truck traffic which doesn't run along  
25 certain defined lines as do the railways, but will operate  
26 over every road whether it is municipal, district,  
27 provincial or dominion and over this tremendous area  
28 from the Peace River country in the north to the  
29 International boundary in the south, and from Ontario  
30 through to British Columbia. Certainly, in my humble way,





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TORONTO, ONTARIO

Brownlee, cr-ex. 14249  
(Cooper)

1 I have not been able to see the answer to it.

2  
3 Q. In any event, you are quite  
4 satisfied that this proposal wouldn't be a dangerous  
5 precedent for other industries?

6 A. No, and that is our view, rightly  
7 or wrongly, and we have some confidence in that view  
8 because, as you know, one of the members of a previous  
9 commission recommended it, and that recommendation has  
10 been before the public for a long time.

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TORONTO, ONTARIO

Brownlee, cr-ex.  
(Cooper)

1  
2 Q. You have a short supplementary  
3 submission relating to branch lines?

4 A. Yes.

5 Q. Your proposal there is simply that  
6 a greater period of notice be given or, rather, that  
7 a period be given after an application is made for  
8 industries to readjust to possible loss of branch  
9 lines: That is what it amounts to in essence, isn't  
10 it?

11 A. I would think it is more correct to  
12 say that our opinion is that the present basic method  
13 of dealing with the closing of branch lines is sound  
14 and we cannot see how it can be improved upon. In  
15 the administration of that by the Board of Transport  
16 Commissioners we think that the problem could be  
17 better dealt with, first, if there was longer notice  
18 by the railway companies.

19 Q. That is, longer notice before any  
20 hearing is ---

21 A. Before an application is made, and  
22 if there was some provision for delaying it. Mr.  
23 Sinclair has been good enough to call attention to the  
24 fact that in the present section of the Railway Act  
25 some discretion is given to the Board. Our observation  
26 was made rather on the basis of the experience which  
27 we have had before the Board in which there seems to  
28 be a tendency either to accept or reject and an  
29 unwillingness to give warning notices or suspend  
30 judgments over a period of time. Also I would like to





Brownlee, cr-ex.  
(Cooper)

1  
2 commend this, because I have heard the railways have  
3 it under consideration, and I hope they have, and I  
4 am speaking now as an elevator operator -- country  
5 elevator -- that many of the country elevators in  
6 western Canada are getting on to the stage when ten or  
7 fifteen years has to got to see a very big rebuilding  
8 program. The cost of building an elevator today --  
9 no company would build one for less than 60,000  
10 bushels at a cost of \$75,000.00 or somewhere around  
11 there, and so this problem is going to become a  
12 very difficult one. In some way, by conferences,  
13 discussions, study groups possibly -- whether that  
14 can be done -- as between the railways and the country  
15 elevator operators, and possibly some of the  
16 municipal authorities, I would hope something could  
17 be worked out that would make this whole problem,  
18 which is coming, much more easily worked out.

19 Q. What you are suggesting is, by  
20 conference or otherwise intimation be given to those  
21 persons concerned that, say, within a period of five  
22 years there is going to be abandonments here and  
23 there and somewhere else?

24 A. If the railways could say this --  
25 and we know if they said it they would say it quite  
26 honestly -- "Here are lines which we think eventually  
27 must come up for abandonment". Is there any way  
28 in which the railway companies and other interested  
29 persons can get together and study those lines? In  
30 a great many cases I have no doubt no agreement could





1  
2 be reached, but it is possible in other cases agreements  
3 could be reached which would facilitate the working  
4 out of a problem which undoubtedly is going to confront  
5 us to a greater or less extent in the next ten or  
6 fifteen years.

7 CROSS-EXAMINATION BY MR. CARTER:

8 Q. Mr. Brownlee, you mentioned in your  
9 evidence that your company had encountered a movement  
10 of grain by truck in British Columbia. This, as I  
11 recall it, was from Creston?

12 A. Southwestern British Columbia.

13 Q. Creston is in the neighbourhood of  
14 Cranbrook, is it?

15 A. It is west of Cranbrook.

16 Q. And this was a movement from that  
17 area to Vancouver?

18 A. Well, Vancouver and to points up and  
19 down the coast, mainly to feed mills.

20 Q. Is this a movement of feed grain?

21 A. Yes and no. You are asking a  
22 question that is rather difficult. Grain that is  
23 sold to feed mills is not sold on the basis of grade.

24 Q. Quite.

25 A. If you mean sold as feed grain, that  
26 is, as grain for manufacturing into feed without  
27 regard to grade under the Canada Grain Act, I would say  
28 yes.

29 Q. As I understood you this morning,  
30 this was a movement of grain to specific feed mills?





1  
2 A. Most of it goes to feed mills, yes.  
3 It is a quality of grain that offers itself to feed  
4 mills.

5 Q. There is, of course, a rail  
6 connection between Creston and Vancouver and these  
7 other points?

8 A. Oh, undoubtedly.

9 Q. And prior to five years ago this  
10 movement went by rail, as I understand it?

11 A. Yes; I think probably I could cut  
12 it down to say prior to three years; certainly not more  
13 than four, when it started to any extent.

14 Q. Did anything in particular happen  
15 at that point of time three years ago which caused the  
16 movement to change from rail to road?

17 A. I think the incentive as far as  
18 the producers are concerned was dissatisfaction -- I  
19 don't want to use that word: was the comparison of  
20 the prices they were getting from the elevator companies  
21 as agents for the Canada Wheat Board and the prices  
22 which they could get by direct delivery to the feed  
23 mills.

24 Bear this in mind, that farmers in western  
25 Canada are going through a difficult time, and to  
26 many of them a dollar today means a lot more than a  
27 dollar and a half a few months from now, and the fact  
28 that they could go to the feed mills and get a certain  
29 price today in cold cash meant more to them than to  
30 deliver the same grain to an elevator as agent of the





1  
2 Canada Wheat Board where they would only get an  
3 initial payment now, a further payment some months  
4 from now and a final payment perhaps a year and a half  
5 from now. So, I think you have the incentive there.

6 Q. As I understand your evidence this  
7 is the only situation in which your company has  
8 encountered the movement of grain by truck, ignoring  
9 of course the movement from the farm to the country  
10 elevator?

11 A. No, I would not say it is the only  
12 one. I mentioned a while ago that a similar movement,  
13 only to a lesser extent, has taken place from Peace  
14 River and Dawson Creek, and then of course at the  
15 present time in your province, in Alberta and in  
16 Manitoba you have quite a movement of truck for fair  
17 distances to feed mills where ordinarily the grain  
18 would have gone into a country elevator nearby.

19 Q. Going back to the movement from Peace  
20 River, where is that grain taken to?

21 A. It goes down through the Pine Pass  
22 to the Pacific coast; some movement to feed mills  
23 elsewhere in British Columbia.

24 CROSS-EXAMINATION BY MR. HUME

25 Q. Mr. Brownlee, Mr. Carter in introducing  
26 his question to you about the Creston movement used  
27 words that at least indicated to me on the record that  
28 your company was moving the grain. I want to make it  
29 clear this is a commercial for hire movement and you,  
30 as the United Grain Growers, do not operate these trucks?





1  
2 A. Correct. The movement is taking  
3 place to our disadvantage. It is custom work by the  
4 producers of grain. In fact, they formed an  
5 association down there and that association on behalf  
6 of the producers contracts for the trucking of the  
7 grain by regular contract truckers.

8 Q. And the operator who is carrying  
9 the grain, whose name escapes me, but from whom I  
10 have a letter on my file, is a licensed for hire  
11 trucker in the province of British Columbia?

12 A. I would expect so.

13 Q. Also to make it clear, if this grain  
14 moves by rail instead of by truck, it is not grain  
15 that moves under the Crow's Nest rates; it is under  
16 domestic rates?

17 A. That is correct.

18 Q. So, the rate that you gave of two  
19 cents a mile -- you said your investigation indicated  
20 that was the cost...?

21 A. Two cents per ton mile.

22 Q. You said two cents a mile.

23 A. No; two cents per ton mile.

24 Q. I thought so, and in order to  
25 compare that, you would have to compare it with the  
26 domestic rail rate and not the Crow's Nest rate?

27 A. It would otherwise move under the  
28 domestic rate.

29 Q. As you are aware, I represent the  
30 Canadian Trucking Associations and there are about





1 three points arising out of your brief I would like to  
2 ask you one or two questions about. In the first place,  
3 generally throughout your submission, and as I read  
4 your brief previously, you indicate that the great  
5 fundamental problem is this revolution in transportation.  
6 I think I am using your words correctly?  
7

8 A. Yes, that is our brief.

9 Q. And you said that in an aside to your  
10 counsel that it is the expectation of the United Grain  
11 Growers this revolution is transitory. I wonder, in  
12 view of the evidence this Commission has heard about  
13 declining intercity ton miles, and the information you  
14 have given about the movement of grain, whether or not  
15 this revolution is as transitory as perhaps it might be  
16 desirable we would hope it might be.

17 A. Well, the effects of the revolution  
18 are not transitory. The problem which poses itself  
19 to the railways, I would hope, would be somewhat  
20 transitory and I would hope measures would be taken  
21 by the railways to meet it. We believe, rightly or  
22 wrongly -- and I have to say this to you -- we believe  
23 it is desirable as far as possible for grain to move  
24 by rail.

25 Q. Yes, I understand that and I am not  
26 questioning anything in your brief and I am fully  
27 appreciative of the fact that your concern, and those  
28 of your 60,000 members, is that you must have  
29 continuation of rail service, but looking at the  
30 transportation matter as whole I recall to you, sir.





1  
2 there was a time when the railways were threatened  
3 with canal barges in England, and one thought the  
4 revolution was temporary, and yet there isn't much  
5 freight moved by the canal barge now, and I am  
6 wondering if both the rail and truck may become  
7 obsolete in the not too distant future for moving  
8 grain. I have in mind pipelines or the fact that  
9 a compressed air conveyor may develop.

10 A. All I can say is we have been  
11 approached by apparently capable people who have  
12 tried to sell us the idea that grain can be moved  
13 by pipeline. Frankly, I haven't taken it too  
14 seriously because, after all, grain is delivered over  
15 a tremendous area and it is over 2,000 communities  
16 where it first comes together, and how you can work  
17 out a system by which that could be brought down to  
18 a pipeline I don't know. I have had the suggestion  
19 made that grain might be handled by container, and  
20 it may be that something like that will be worked out;  
21 I don't know. I have lived in Canada quite a while  
22 and I have seen things happen that I never dreamed  
23 could happen twenty-five years ago, and I certainly  
24 am not going to venture an opinion as to what  
25 changes may take place over the next twenty-five or  
26 thirty years. There may be changes we simply do  
27 not dream of at all now.

28 Q. I am sure that is so. My concern  
29 was only that your brief starting at page 5 seemed  
30 to make a convincing case that the railway





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Brownlee, cr-ex.  
(Hume)

1  
2 transportation is a shrinking business, and yet, as  
3 I understood your evidence, you indicated that this  
4 revolution in the railways' difficulties and the  
5 reason for the Royal Commission is that it is a  
6 transitory thing, and I wanted to find out whether  
7 I misunderstood your brief or whether it is the  
8 view of the United Grain Growers that the railway  
9 transportation business is a shrinking business by  
10 reason of the factors you have discussed.  
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1  
2 A. I think I can only sum up our brief  
3 in this way: Our brief is written with the limitations  
4 that are imposed on any person by an inability to  
5 forecast the future very far. Looking to the best  
6 of our ability to the situation with respect to the  
7 production and delivery of grain as we see it now,  
8 we are very anxious to see the railways preserved in  
9 a way in which they can handle it because we doubt  
10 if other methods will come into general practice for  
11 some years at least. The fundamental cause of the  
12 railway problems in our opinion is this complete change  
13 that has taken place in the movement of commodities  
14 and persons. We believe that while that is bound  
15 to carry on for a long while, nevertheless, we are  
16 hoping that the railways by getting together, planning,  
17 may be able to work themselves into a much more  
18 satisfactory position in handling the product than  
19 they are at the present time competitively.

20 Q. May I ask you to look at page 7 of your  
21 brief. I understand the position your organization  
22 is taking, as I read page 7 and as I heard you summar-  
23 ize it today I ended up with the conclusion dealing  
24 with the assumption which you make at the beginning  
25 at the top of the page and you close that assumption,  
26 as I read it, with the impression that it was your  
27 organization's impression that for those reasons  
28 you would assume basically that a rate structure could  
29 be devised to make the railway profitable. Have I  
30 misread your brief?





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Brownlee cr-ex  
(Hume)

14260

1  
2 A. I am not quarrelling with your statement.  
3 I think what we are trying to say at the top of page  
4 7 is correct. We are not at all sure that a rate  
5 structure can be devised which can make the railways  
6 profitable. It may be that in the interests of  
7 all of the people of Canada it would be better for  
8 some assistance to be given to the state rather than  
9 to try and make the railways profitable by rate in-  
10 creases.

11 Q. You mean some assistance given by the  
12 state? You said "to the state"?

13 A. No, I said, "by the state," at least, I  
14 hope I did.

15 Q. Well, that leads me to suggest this  
16 to you that if the revolution which you described  
17 continues and if more and more people fly and use  
18 their own passenger vehicles, and more and more shippers  
19 of goods either use commercial carriers or buy their  
20 own trucks, would you not conceive it possible that  
21 the railways in Canada would be unable to have a rate  
22 structure that would keep them profitable and that  
23 therefore, there would have to be some state assistance  
24 in the movement of grain?

25 A. I would agree with that, yes, it is  
26 possible.

27 Q. Would you agree?

28 A. Yes, if you mean by that state assistance  
29 to the railways as a whole, not earmarked to any  
30 particular branch of the railway operations -- then





1  
2 I would agree.

3 Q. I would like to suggest this to you,  
4 and perhaps it is purely hypothetical but perhaps it  
5 is possible: Would you not agree that if for  
6 instance, the other traffic shrank for the reasons I  
7 have indicated over the next half century to such an  
8 extent that practically all the railways have left  
9 is grain then would you disagree with the proposal that  
10 the assistance be to the railway and not allocated to  
11 grain?

12 A. Well, I think you are asking me to look  
13 ahead much further than I am able to do.

14 Q. I am asking you these questions because  
15 I am now leading to my second point and that is on  
16 page '29. In your reference to the railways' proposal,  
17 under your sub-paragraph (d) you are pointing out  
18 that the Royal Commission is required to make payment  
19 of a subsidy said to be for the benefit of producers  
20 but not in fact payable to them. I am suggesting  
21 to you that if the revolution which you have described  
22 takes place and if the movement of grain becomes more  
23 increasingly used by truck or pipeline or something  
24 we do not yet conceive would you feel the subsidy  
25 ought to be paid to the railways alone or should it  
26 be paid to the shipper to permit him to chose his  
27 method of transportation. While you are thinking  
28 about that, you go on in that paragraph to say:

29 "The producers are not to be trusted with  
30 it, or permitted to use it to seek or





1  
2 encourage other forms of transportation;  
3 it must be paid to the railways."

4 I am reading that as indicating that  
5 it is the view of your Association that you feel it  
6 should be paid in a way to permit the shippers freedom  
7 of choice?

8 A. I wish you would repeat your question  
9 so I have got it clearly.

10 Q. Do I understand that the paragraph marked  
11 (d) on page 29 of your brief indicates to this Commission  
12 that if assistance is to be paid it should not be paid,  
13 as you point out there, to the railways alone but it  
14 should be paid to the producers in such a way as to  
15 permit them to use it to seek and encourage other forms  
16 of transportation? I am using your words?

17 A. I think what we have tried to say here  
18 is fairly clear. We object to the railway proposal  
19 for the reasons set out in (a), (b), (c) and (d) and  
20 other reasons. We object to and oppose any study  
21 or any proposal which serves to divide or seeks to  
22 divide railway traffic into segments. We specific-  
23 ally oppose any effort to single out grain and say  
24 that, if for any reason there should be a subsidy  
25 paid by anybody to anybody certainly on principle we  
26 would oppose even more strongly a suggestion as it  
27 has been made that in the guise of a subsidy to  
28 producers a subsidy is in fact paid to the railways.  
29 We do oppose it.

30 Q. I think you have left no doubt in my





1  
2 mind as to how you feel about the subject. However,  
3 I am putting to you a hypothetical situation, at least  
4 I think it is hypothetical at the present time that  
5 if, as a result of one thing or another it is necessary  
6 to assist the railways in the moving of grain, whether  
7 or not you would feel that such assistance however  
8 you call it and by whatever method you pay it should  
9 it be paid to the railways alone or should it be paid  
10 to the shippers or producers to permit him to choose  
11 his own method of transportation?

12 A. Well, I can only again reply that we  
13 can only again hope that it is not necessary to pay  
14 a subsidy related to grain and grain shipment. I  
15 think, of course, I would have to agree with you that  
16 if in the wisdom of those who make our laws they  
17 should decide that in some way a subsidy were to be  
18 paid to assist producers it should be paid to them and  
19 not to somebody who is an agent for them.

20 Q. It has been made clear that the railways  
21 today are under certain obligations in connection with  
22 the movement of grain, and I suppose you would agree  
23 that if other means of transportation are to share  
24 in this traffic, as you have indicated is a possibility,  
25 you perceive that no doubt those who administer this  
26 would make certain requirements for other means of  
27 transportation as well. That is, the railways I  
28 understand are required to supply cars to certain  
29 designated points and required to not charge demurrage  
30 at lakehead elevator points. I suppose you would





1  
2 agree it would be fair that if other means of  
3 transportation are sharing in this movement there  
4 would be other comparable requirements on any organ-  
5 ization that recieves state assistance. You would  
6 agree with that?

7 A. I am awfully sorry but really I cannot  
8 follow you there. I think you are asking us to  
9 imagine something that is beyond my imagination.  
10 I do want to answer you if I can and if you will ask  
11 the question again I will do the best I can.

12 Q. I am sure the fault is mine. You  
13 stated in answer to somebody's question that you fore-  
14 saw the possibility in the future of the movement of  
15 grain by truck to the extent you were considering  
16 elevators and cars in your evelators -- you would  
17 provide facilities for unloading?

18 A. To some extent, yes.

19 Q. And I take that subject further in  
20 that perhaps some time in the year 2110 considerable  
21 amounts of grain may be moving to export positions by  
22 truck and I say that if that takes place and if it  
23 is a system then I am merely asking you to agree with,  
24 you would probably agree that whatever obligations are  
25 imposed on the railways that those who pay the  
26 assistance would not doubt impose similar obligations  
27 on trucks or pipelines or whatever the transportation  
28 method might be.

29 A. I cannot agree with you. I cannot  
30 say "Yes" or "No" because the Dominion Government can





1  
2 impose regulations on the railways but the Dominion  
3 Government cannot impose regulations upon the truckers.

4 Q. Why not?

5 A. I do not think they have jurisdiction.

6 Q. Well, they have jurisdiction when they  
7 bring grain from Manitoba into Port Arthur because  
8 that would be an inter-provincial truck line.

9 THE CHAIRMAN: Well, we will not deal  
10 with the constitutional question.

11 Mr. HUME: Q. My last point is that in  
12 answer to Mr. Cooper in regard to a matter of highway  
13 taxation, the use of highways, you make your position  
14 quite clear. There was one thing you said which I  
15 wanted to ask you about. You indicated that theor-  
16 etically you agreed that the state should recover  
17 from the user the cost of building and maintaining  
18 the roads?

19 A. Not the entire cost but part.

20 Q. Have you made any studies to indicate  
21 that in the provinces where your company operates  
22 the province does not recover by licence fees and  
23 gasoline taxes the proper proportion?

24 A. Well, I would hope they are recovering  
25 a substantial part but I have to say to you, quite  
26 frankly, that I have not made a study to determine  
27 in my own mind whether they are recovering a sufficient  
28 amount or not. As I drive along I see the weighing  
29 stations, trucks must pull into them and they are no  
30 doubt there for a purpose. The trucks are licenced,





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Brownlee cr-ex 14266  
(Hume)

1  
2 they pay a gasoline tax or at least the gasoline tax  
3 is paid by the consumers. I have not been able to  
4 take the public accounts of any province and analyse  
5 them to form a sound opinion as to whether or not  
6 they are paying their share. I am bound to say  
7 when I answered a while ago I was stating an opinion  
8 which I had formed from observations and watching  
9 the effort that is being made by the provinces to  
10 maintain the highways and the amount of trucking that  
11 is going over them and the kinds, I have a feeling  
12 that more could be recovered.

13 Q. Then in your own words, and I am quoting  
14 you now, "The use of highways by trucking is imposing  
15 a tremendous burden on the taxpayer," that is based  
16 on your personal opinion but you have not made any  
17 study of the situation?

18 A. I have to admit that, yes. I thought  
19 I made that clear.

20 MR. HUME: Thank you

21 THE CHAIRMAN: We will have our recess now.

22  
23 --- Short recess.  
24  
25  
26  
27  
28  
29  
30





1  
2 THE CHAIRMAN: Order, please. Mr. McDonald?

3 MR. McDONALD: Thank you, Mr. Chairman.

4  
5 CROSS-EXAMINATION BY MR. McDONALD:

6 Q. I have a few questions, Mr. Brownlee,  
7 by way of explanation of the brief. The first thing  
8 I would like to do is to turn to page 18, the land  
9 grants. I spoke to Mr. Griffin about this during the  
10 intermission. You show a figure that the Canadian  
11 National, and railways now part of Canadian National,  
12 received 5,727,000 acres of land. Our land department  
13 has given me a statement showing that those railways  
14 received a total of 4,839,039 acres.

15 MR. GRIFFIN: Certainly we would accept  
16 that correction.

17 THE CHAIRMAN: What is a million?

18 MR. McDONALD: Yes, what is a million: but  
19 I don't like to let these things go. Somebody may  
20 quote them ten years from now. The total is  
21 4,839,039 acres.

22 THE WITNESS: I think we took our figures  
23 from some compilation that was made by . . .

24 THE CHAIRMAN: Mr. Brownlee was not trying  
25 to mislead.

26 MR. McDONALD: I just wanted to correct the  
27 record.

28 THE WITNESS: We accept your correction, and  
29 thank you very much for it.

30 MR. McDONALD: Q. Then, to return to page  
8 of your brief, dealing with passenger service, you





1  
2 say there:

3 "It is inherent in the nature of a railway  
4 that it should provide passenger service,  
5 and in most places continue to do so in  
6 spite of shrinkage in the volume of  
7 passenger business, and even when such  
8 service becomes a source of expense rather  
9 than a source of revenue."

10 I submit to you it would be more sound policy if the  
11 railways were required to provide passenger service  
12 when it was economically sound?

13 A. I am not agreeing with that -- sorry.  
14 I think the railways must take their part and share  
15 some of the burdens of building up a Canada such as  
16 we want, and I think there are places where it would  
17 cause a great deal of hardship and would be bad for our  
18 country if the railways cancelled a passenger service  
19 simply because they thought it was not economically  
20 sound.

21 That is not to say for a minute that the  
22 question of whether a service is sound or not is a very  
23 important one, but I wouldn't go as far as you have  
24 tried to say.

25 Q. Well, then, the next step: Assuming  
26 that the railway is required to provide a service which  
27 is a source of expense who should bear that expense?  
28 Is it the shippers on the railway -- the freight shippers --  
29 or should it come out of the treasury for the benefit  
30 of the public as a whole?





1  
2 A. Well, I am sorry, but I don't quite like  
3 that question the way it is put. Certainly, if the  
4 railway is required to carry on a passenger service  
5 where it is uneconomical we oppose any suggestion that  
6 that should be made a burden on the locality concerned.

7 Secondly, we say that the railway in its  
8 operation is one and indivisible and on this we have  
9 the evidence of the railways, I believe, in the  
10 previous Royal Commission -- no, we have the conclusion  
11 of the previous Royal Commission -- that you cannot  
12 segregate the expenses of passengers from freight.

13 In my opinion any loss which may be there  
14 is part of the loss of operating the entire system,  
15 and relief from the government should only be given  
16 on an overall basis, judging the results of all of  
17 the operation; and it may quite well be that up  
18 until the time that the government comes into the  
19 picture -- it may quite well be that freight is  
20 carrying losses on passengers.

21 Q. Yes?

22 A. That may be the result for the time being.

23 Q. Then, this morning you suggested that  
24 the railways should cooperate with a view of reducing  
25 their expenses, and you referred to the announcement  
26 made by Mr. Gordon in regard to the Committee dealing  
27 with passenger service?

28 A. That was my understanding of what he said  
29 to the Railway House of Commons Committee.

30 Q. But you stated you saw this announcement





1  
2 in the papers where the two railways were reducing  
3 their . . .

4 A. No, I didn't say I saw it in the papers;  
5 I said I heard about it. As a matter of fact, I got my  
6 information from the railway officials at Winnipeg  
7 themselves.

8 Q. But you said you didn't agree with that.  
9 I would like to know what your objection to that  
10 procedure is.

11 A. Well, I have travelled a great deal east  
12 and west on the railways, and north and south, because,  
13 as I said, I happen to be one who can get a better rest  
14 on the railways than I can on a plane, and the thing  
15 that strikes me repeatedly is the fact that the two  
16 railway systems start trains at the same time from one  
17 destination headed for another, arriving at about the  
18 same time. There are trains run half empty. If the  
19 railways would get together they could pool their re-  
20 sources more than they have done in order to get away  
21 from that.

22 Secondly, a man who wants to go from Winnipeg  
23 to Toronto has a choice of several planes. Heretofore  
24 he has had his choice of two trains with Canadian  
25 and, I think, two on the Canadian National. In the  
26 course of ordinary business experience it is sometimes  
27 very convenient to take the morning or the evening  
28 train. Now, the two railways, as I understand it --  
29 and as I was informed in Winnipeg -- have each decided  
30 to take off a train which starts at the same time and





1  
2 ends at the same time, simply leaving two trains leaving  
3 at the same time and arriving at their destination.

4 Again, I think, you are dividing effort.  
5 You realize when I say these things that I am speaking  
6 in an amateurish way because I don't pretend to be a  
7 student of railways; but I wonder why you couldn't make  
8 it a little more convenient for the travelling public  
9 by having one going at one time and another going at  
10 another, and possibly they could use the same roadbed  
11 and give a greater service, because it is the constant  
12 cutting down on the service that is driving traffic  
13 elsewhere.

14 Q. But, then, you realize, Mr. Brownlee, that  
15 there are intermediate points that have to be served,  
16 which are not common to both railways?

17 A. They are not served, in my opinion. They  
18 may be served by a day coach; but I would say that the  
19 intermediate service can be maintained without maintaining  
20 the standard of line which is required for your trans-  
21 continental train travelling at sixty, seventy and  
22 eighty miles an hour; and I think you can take care of  
23 it just the same as you do in other places where there  
24 is local traffic in between these points in some other  
25 way than to depend on the transcontinental trains.

26 Q. Well, it would either mean duplication of  
27 trains, or taking off one of the transcontinental trains.  
28 You couldn't reduce your train mileage or you would have  
29 a greater expense.

30 A. Well, I am not sure that I get what you





1  
2 suggest. At the present time they are going to  
3 run two trains transcontinental.

4 Q. Yes.

5 A. I am suggesting that as it appears to  
6 me you could still run two transcontinental trains but  
7 could run them at a little different times and you  
8 don't increase your expense; you don't run any more  
9 trains; but you schedule them in a way that is more  
10 convenient to the travelling public and, therefore,  
11 you don't drive away so much traffic.

12 Now, again, please keep in mind that probably  
13 in saying this I am expressing a foolish, personal  
14 opinion which may be unsound.

15 Q. I want to get your view because later  
16 we will have an operating officer in the box. I can't  
17 give you the answer myself, but he may be able to answer  
18 it and give the explanation.

19 A. Well, anything that I am saying has been  
20 said elsewhere in the House of Commons Railway  
21 Committee.

22 You will recall that one of the members  
23 questioned Mr. Gordon with respect to operating down  
24 in the Fraser River, and I have heard many people  
25 who travel across to the Pacific coast comment on the  
26 fact that each company has a train from Kamloops on,  
27 running on different sides of the river, in probably  
28 some of the most expensive construction country in  
29 Canada, and I am wondering why something else could  
30 not be worked out by the two companies if they would





1  
2 get together. These are some of the things we make  
3 reference to, as I say, anyway.

4 Q. Then, on page 27, just dealing with  
5 this briefly, you refer to the Canadian National  
6 attributing to the grain traffic a share of a return  
7 of 9.25 per cent on the shareholders' equity. Just  
8 to deal with that, does your objection mean this, that  
9 you think there should be no return on the shareholders'  
10 equity so far as the Canadian National is concerned,  
11 or that it is too much?

12 A. Well, I wish you hadn't asked that  
13 question. Quite frankly, it seems to me that when you  
14 consider the historical development of the Canadian  
15 National Railways, the extent of capital investment  
16 that has been made over so many years, probably a  
17 good deal of it now, from hindsight, seems to have been  
18 unwise. Any suggestion that the Canadian National  
19 Railways will ever be able to earn enough to pay its  
20 return of interest on the whole of the shareholders'  
21 equity does not seem to me to be realistic.

22 Q. But you wouldn't go so far as to say . . .

23 A. And I doubt -- more so on the form of  
24 government such as we have now -- whether they would  
25 allow its return of interest. It seems to me the  
26 demand would come for a reduction in freight rates.

27 Q. But your suggestion is not that they should  
28 not get any return? You don't mean that they should not  
29 get any return?

30 A. I am just as anxious as anybody else to





1  
2 see the Canadian National Railways system being in a  
3 position where their accounts can be taken into  
4 Parliament with a credit -- just as anxious as anybody.

5 MR. McDONALD: We are all shareholders.

6 MR. SINCLAIR: I am not!

7 MR. McDONALD: You must be an exception.

8 MR. SINCLAIR: I am a dissident shareholder.

9 THE WITNESS: What we have been trying to say  
10 is that we think one of the fallacies of the present  
11 situation is that it is based on the assumption that  
12 a return of interest at the rate you mention here can  
13 be paid by the Canadian National, and we don't think  
14 it is realistic.





1  
2 Q. Then, the cost study which you pointed out,  
3 you said that the technical part of that will be dealt  
4 with by Mr. McKimmie and his experts, so I will not  
5 trouble you asking any questions on that.

6 A. That is right.

7 Q. Then, on page 32 you were referring to  
8 subsidies. You will agree with me that all these  
9 subsidies you refer to are paid for the benefit of the  
10 shippers and not the railways?

11 A. No sir, I don't agree with that.

12 Q. Well, the freight rates are reduced; for  
13 instance, the bridge subsidy is applied in a reduction  
14 of freight rates?

15 A. Yes, I will make an exception of the bridge  
16 subsidy which was definitely for the purpose of evening  
17 out the rates east and west, as I understand it. However,  
18 a lot of the other subsidies, if I understood you correctly,  
19 that these subsidies were provided solely for the benefit  
20 of the shipper and user, I would say no -- well, yes,  
21 at the present time. I think probably I am confused  
22 a bit here; you are referring to the two subsidies at  
23 the present time, the bridge subsidy---

24 Q. And the \$20. million subsidy?

25 A. Yes. It was running through my mind for a  
26 while where some subsidies had been advocated.

27 Q. These subsidies in fact at the present time --  
28 being the bridge subsidy and the \$20. million subsidy --  
29 all go to the reduction of freight rates?

30 A. That is right.





1  
2 Q. The same as the subsidy under the  
3 Maritime Freight Rates Act, for a reduction in  
4 freight rates?

5 A. Yes.

6 Q. Then, we come to your supplementary  
7 brief on branch lines. I would suggest to you,  
8 Mr. Brownlee, that there is no necessity of any  
9 legislation to give the Board power to delay a  
10 hearing. I think they have been following that  
11 practice in some cases, and that they have  
12 jurisdiction to do that.

13 A. Well, if so it hasn't come to my  
14 attention. I stand corrected if you say that is  
15 the case; I accept what you say. It just happens  
16 that in my own experience - there was one  
17 application pending in which I discussed with  
18 the Board the possibility of judgment being  
19 suspended for a certain period of time, and the  
20 answer I got led me to believe that in practice  
21 the Board wasn't accustomed to doing that; that  
22 they heard the hearing and either rejected it or  
23 accepted it, and if they rejected it then another  
24 application would be made, but I did gain that  
25 impression, rightly or wrongly, and I must have  
26 been wrong, that in practice they were not  
27 accustomed to extensions or adjournments.

28 Q. I think you will find - I don't  
29 want to go into the individual cases - there have  
30 been a number of cases where there has been





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(McDonald)

1  
2 evidence that there is going to be a growth in  
3 business, or something like that, and the Board  
4 says, "well, we will put this off for a year to  
5 see what happens"?

6 A. Well, I am glad to hear it and  
7 I accept that correction gladly.

8 Q. Then, in the operation of your  
9 elevators have you ever had occasion to abandon  
10 the operation of an elevator?

11 A. Yes, for various reasons.

12 Q. Well, I mean on a number of  
13 occasions I suppose you have done that?

14 A. Oh, I wouldn't say too many. This  
15 last year since the 1st of January we are abandoning  
16 two, yes. When I say "abandoning" I mean we are  
17 leaving them filled with grain and standing there,  
18 but we are not putting an operator on there.

19 Q. Do you give any notice to the  
20 farmers in advance, or the railway, that you are not  
21 going to operate this elevator any more?

22 A. Yes. Our procedure is, as you  
23 know, that wherever we have an elevator we have a  
24 local.

25 Q. You have a which?

26 A. I say in most places where we have  
27 an elevator we have a local; it is our shareholders'  
28 local and our 60,000 or 50,000 members are divided  
29 into territory locals, and when we decided two or  
30 three or four weeks ago to abandon Academy - we





1  
2 decided to abandon Academy and we sent our field  
3 man down to Academy to get our local members and  
4 farmers together to explain the reason why, and  
5 they approved of the step which we were taking.

6 Q. How much notice did you give  
7 them about the abandonment?

8 A. Oh, that is hardly a question I can  
9 answer because our action would have depended to  
10 some extent upon the reaction which we got.

11 The procedure was simply this; Mr.  
12 Edworthy, the manager of our western division,  
13 recommended to me that we shouldn't operate Academy  
14 further, that it wasn't a paying point, and I  
15 suggested to him that he follow the usual course  
16 of having our field man go down and call the local  
17 board together and discuss it with them and to  
18 bring back the reaction, and the reaction, I am  
19 happy to say, was a complete endorsement of what we  
20 proposed and a realization that they could deliver  
21 quite readily to either one of two points a very  
22 short distance apart; Alderside on one side and  
23 DeWinton on the other, and in either case no more  
24 than four miles.

25 Q. Four miles wouldn't be very  
26 material in the transportation of the grain to the  
27 elevator once it is loaded, I suppose?

28 A. No. As a matter of fact, that  
29 elevator should never have been built; it is one  
30 which we took over when we purchased another line.





1  
2 COMMISSIONER GOBEIL: Has your  
3 abandonment ever been rejected or refused by your  
4 local group?

5 THE WITNESS: Yes, just last year, and  
6 within the past two years we had some negotiations  
7 with the Manitoba Pool by which we could each say  
8 that we would get out of certain points and they  
9 would get out of certain points where we were  
10 to go, and there was one in particular which we  
11 had included as one which we would sell to them, and  
12 when we went down and approached our local group,  
13 who happened to be a group of very old members and  
14 had been with us for a long time, and they put up  
15 very, very strenuous objection, and the result is  
16 that we withdrew that point from the list and are  
17 operating it today.

18 COMMISSIONER GOBEIL: Would it happen  
19 again this year?

20 THE WITNESS: Well, I wouldn't want to  
21 say that we never would, but up to the present time  
22 we have been reasonably happy in what we have tried  
23 to do, and that is all I can say, sir.

24 MR. McDONALD Q: You have been a good  
25 negotiator.

26 A. No, I don't go along with that  
27 because next year I will celebrate fifty years of  
28 association with the farm organizations of western  
29 Canada, and one thing I can testify to from that  
30 experience is that the farmers are as reasonable a





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1  
2 bunch of people to deal with as any group in the  
3 Dominion of Canada; you go to them with a reasonable  
4 proposal and the chances are very good that you will  
5 come away with a reasonable answer.

6 MR. McDONALD: Thank you, Mr. Brownlee.

7 MR. HUME: I wonder if I may ask Mr.  
8 Brownlee one question. You spoke about 60,000  
9 members and customers - I should, perhaps, know  
10 this - are these words synonymous?

11 THE WITNESS: Not exactly, sir. Under  
12 the Canada Grain Act we have to take the grain from  
13 any man who drives up our driveway. We are subject  
14 to a penalty if we don't, and the result is that at  
15 many points some of the farmers who deliver to us  
16 in any year may not be members and that they don't  
17 deliver to us regularly and have not subscribed to  
18 our membership, the membership which entitles them  
19 to be a member.

20 MR. HUME: Thank you, sir.

21 THE WITNESS: We use that term 60,000  
22 rather loosely in that at the present time we have  
23 over 50,000 farmers who hold membership shares. Two  
24 years ago, as you know, we took over the Canadian  
25 Consolidated Elevator line and we haven't been able  
26 to organize that line yet into locals and we haven't  
27 tried to solicit memberships from the farmers  
28 in that area. There are probably 10,000 customers  
29 there and we think many of them will become members,  
30 but as yet we classify them as customers.





1  
2 THE CHAIRMAN: Mr. Sinclair?

3 CROSS-EXAMINATION BY MR. SINCLAIR:

4 Q. Mr. Brownlee, you have said to  
5 my friend Mr. McDonald that you have been closely  
6 associated with the farm organizations in western  
7 Canada for fifty years.

8 A. I will be next year.

9 Q. And you have stated that the primary  
10 purpose of your appearance before this Commission  
11 is to defend the present statutory grain.

12 A. That is right.

13 Q. By that you mean the level of the  
14 rates now in existence for the movement of grain  
15 to export positions in western Canada?

16 A. No, I don't mean that at all; I  
17 mean that we defend the Crow's Nest Pass or any  
18 interference with the Crow's Nest Pass or anything  
19 which impliedly would be contrary to the Crow's  
20 Nest Pass agreement.

21 Q. What the western Canadian farmer  
22 is interested in is not having the transportation  
23 costs for the movement of grain to export positions  
24 increased under the foreseeable circumstances which  
25 doesn't enable him, without undue hardship, to bear  
26 a higher cost over that segment of his production  
27 cost; that is what you are really interested in,  
28 isn't it?

29 A. No, I think the average farmer in  
30 western Canada takes a longer and wider view than





1  
2 that. He is interested in maintaining the protection  
3 of the Crow's Nest Pass rates and he is opposed to  
4 anything which might be interpreted as spelling an  
5 end or interfering with the status of those rates.

6 Q. Would you look at page 35, Mr.  
7 Brownlee, in your brief. My question to you is  
8 one that is really a yes or no thing. You have  
9 indicated here, "that the primary concern of  
10 United Grain Growers Limited in appearing here is to  
11 defend the present statutory grain rates in western  
12 Canada." Incidentally --

13 A. You are referring to the top of  
14 page 35?

15 Q. Yes, and only incidental to  
16 that were these other matters of your primary purpose,  
17 that was to defend the present statutory grain rates?

18 A. Now, Mr. Sinclair ---

19 Q. In western Canada.

20 A. Mr. Sinclair, if I got your remark  
21 there you used the word "incidental" in a way that  
22 it - it is not supported by the language.

23 Q. Incidental to the ---

24 A. You said incidental to that defence  
25 we have mentioned briefly various railway problems  
26 and the source from which these arise, and I have  
27 made reference to passengers; problems of that kind.

28 Q. I am sure it is my fault.

29 A. I am sorry if I interrupted you.

30 Q. No. The fundamental interest of





1  
2 the western Canadian grain farmer is that the present  
3 level of the grain in western Canada, the movement  
4 of grain to export positions, will not be disturbed  
5 now or in the foreseeable future; that is of  
6 particular concern, is it not?

7 A. The concern of the western farmer  
8 is that the present freight rate - the Crow's Nest  
9 Pass rates be maintained and be not disturbed, and  
10 if I have interpreted it correctly, the representations  
11 that have been made before this Commission are equally  
12 concerned about anything being done which might  
13 indirectly affect those rates.

14 Q. Might indirectly affect the level  
15 of those rates as paid by the farmer.

16 A. No, no; I will not agree with that.

17 Q. Well then, Mr. Brownlee, what is he  
18 interested in? Is he afraid that if recognition is  
19 given to changed conditions in costs of transportation  
20 that have taken place since the level of those rates  
21 were fixed in Queen Victoria's day, that the level  
22 of those rates as paid by the farmer would be  
23 tampered with.

24 A. Mr. Sinclair, let us get our minds  
25 together; when you ask what is he concerned about,  
26 do you mean why is he concerned about the application  
27 that is now before this Commission?

28 Q. Why is he concerned with the  
29 proposals advanced by Canadian Pacific to this  
30 Commission, and my question to you is is he concerned





1  
2 with being given recognition ---

3 A. No.

4 Q. I am sorry.

5 A. I am sorry if I ---

6 Q. If you have my question on that;  
7 I was just repeating it.

8 A. I would prefer that you finish.

9 Q. Is he concerned with those proposals  
10 which give recognition to changed conditions in the  
11 costs of transportation that have taken place in the  
12 last sixty odd years, that this would result in the  
13 possibility of tampering in the future with the  
14 level of the grain rates paid by the farmer; is  
15 that your concern?

16 A. No, his concern arises from a  
17 number of things. His concern in the first place is  
18 that in this study an attempt has been made to  
19 segregate the one rate for special treatment in which  
20 every conceivable cost is charged against it, whereas  
21 there are hundreds of rates today that don't meet  
22 all of the same costs; his concern is that in essence  
23 and in fact the carrying out of this proposal would  
24 put an end to the Crow's Nest Pass rates.

25 Q. And as paid ---

26 A. You can't carry out your proposal,  
27 in my opinion, unless this Commission establishes  
28 a new rate, and how can you establish a new rate  
29 and have it confirmed by Parliament and say that  
30 you have not interfered with the status of the old rate.





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Q. And his concern, then, is that by establishing a level different from that which the farmer is paying that it might put the actual rate that he does pay in jeopardy; is that right?

A. I wouldn't say he is concerned with that. I have tried to tell you what he is concerned about.

Q. If the western Canadian farmer had the assurance of government that the Crow's Nest rates as paid by the farmer would not be tampered with, wouldn't that satisfy him?

A. No, sir, it would not; it definitely would not, because governments unfortunately in this country have not in some cases had too long a life.

Q. Let us take, for instance, if the present government gave them that assurance, wouldn't that satisfy them?

A. If the present government gave the assurance I would accept it as much as I would accept the assurance of any government, but we are not accepting the assurance of governments in this case.

Q. Well, the government has given the farmer that assurance?

A. Oh, yes, I have it here. I didn't bother reading it.

Q. Where the word "tamper" is used. I haven't reference to the rhetoric.

A. Well, let us look at the rhetoric used by Mr. Diefenbaker.

Q. I am going to draw your attention to





1  
2 something else. That is the rhetoric I have reference  
3 to.

4 A. Well, maybe you have got something that  
5 will surprise me.

6 Q. No, I don't think so, but you may have  
7 overlooked it. I am reading from Hansard, June 28th,  
8 1960.

9 A. Yes.

10 Q. Where the Minister of Transport Mr.  
11 Hees said:

12 "The Prime Minister gave the House  
13 an assurance that the Crow's Nest Pass  
14 rates would not be tampered with, and  
15 when the Prime Minister gives an assur-  
16 ance that assurance stands."

17 That is a quotation. Surely, that is a pretty definite  
18 statement in so far as the farmer having to pay higher  
19 costs is concerned?

20 A. Well, we will hold Mr. Hees to that  
21 statement, that the rates will not be tampered with,  
22 but you can't carry out the proposal without tampering  
23 with the rates, in my opinion.

24 Q. Well, we will discuss that later, as  
25 to how it can be done.

26 A. Well, I say tampering with the rates in  
27 this way that, in my opinion -- and I am speaking  
28 now only as one who has had a reasonable experience in  
29 law and legislative branches -- that you can't set up  
30 a new rate and go into Parliament and have an Act passed





1  
2 which confirms a new rate and say you have not inter-  
3 fered with and in some way changed the status of the  
4 original rate.

5 Q. I recognize your experience, and that is  
6 where I think your views deserve some considerable  
7 weight, and I am going to ask you, have you carefully  
8 considered the legislative change that the Canadian  
9 Pacific proposed -- the actual terminology of that  
10 change?

11 A. No, I haven't seen it, and I would be  
12 glad to look at it. If you have it, I would be  
13 delighted to read it.

14 Q. Well, it was sent to you so many months  
15 ago.

16 A. Sent to me?

17 Q. Yes.

18 A. I will have to beg your pardon, Mr.  
19 Sinclair. I haven't seen it. The document is so  
20 long and involved I left it to others better qualified  
21 to analyse it.

22 Q. What I was going to suggest, if you  
23 had a suggestion that would strengthen that legislation  
24 that we have proposed and still give the farmers the  
25 assurance that they want. I wonder if you could look  
26 at that tonight, because it is quite obvious we are  
27 not going to finish now.

28 A. I will be glad to look at it and see  
29 what it said, but the objections that we are voicing on  
30 behalf of the farmers of western Canada to this proposal





1  
2 are so many and so varied that I am quite sure no  
3 language which you have suggested would overcome the  
4 objection which we have to the proposal which the  
5 railways have made.

6 Q. Isn't it a matter of concern to the western  
7 Canadian farmer to know that from a quarter to one-  
8 third of the freight work performed by Canadian Pacific  
9 is at a rate level, a revenue level, fixed over sixty  
10 years ago, and has not been changed notwithstanding  
11 increasing costs and changing conditions that he knows  
12 have occurred? Isn't that a matter of concern to him?

13 A. My answer is that he does not know that,  
14 and I think that until the cost studies have been examined  
15 and criticized and the various briefs have been filed,  
16 I am quite sure that there remains a great deal of doubt  
17 about what you have said.

18 Q. Let me ask you also this: isn't it a  
19 matter of concern to the western Canadian farmer that  
20 the inflationary trend that has been existent in our  
21 economy ever since we have studied it -- and there is  
22 no indication it is going to change -- does not put into  
23 jeopardy, in very great jeopardy, this special situation  
24 that he now has with regard to the movement of export  
25 grain?

26 A. I think that the concern of the farmer  
27 as we have tried to interpret it is that the farmer is  
28 -- may be and is concerned about the inflationary  
29 processes and that they are prepared to admit it may  
30 put in jeopardy the whole operation of your railways, and





1  
2 they don't object to the whole operation of your railway  
3 being reviewed, and if some steps must be taken to  
4 protect it, those steps may be taken, but they are not  
5 prepared to accept a proposal which is based upon a  
6 study which assumes to deal with one commodity only  
7 and which advocates a form of subsidy which is supposed  
8 to be to the farmer but which he never sees and which  
9 puts him in the position that every time anything comes  
10 up in the House which involves the subsidy to the farmer,  
11 that \$35 million to the railways is going to be trotted  
12 out as a relief to the farmer. He is not prepared  
13 to accept your proposal, sir, and that is about all I  
14 can say.

15 Q. He is not prepared to accept this  
16 proposal because possibly he has not understood it  
17 completely, but also he does certainly worry about the  
18 fact, I am sure, that even today there is a large segment  
19 of people in this country who figure that the Act should  
20 be changed by deleting Section 328 and letting  
21 grain rates find their proper level. He knows that,  
22 doesn't he?

23 A. Oh, yes, he has had evidence of that for  
24 some time. The railways themselves ten years ago tried  
25 to demonstrate that section should be deleted.

26 Q. And it was a matter of concern to him then?

27 A. Yes, and if the railways had succeeded at  
28 that time you would have had some \$300 million of  
29 additional levy in the past three years which you now  
30 admit the traffic could not bear.





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Q. The traffic we admit, Mr. Brownlee and I think it might be wise to correct this now: we admit traffic could not bear it without undue hardship on a segment of the Canadian western people.

A. All right.

Q. And the traffic would still move at a higher rate. There is evidence before this Commission maybe not in the same volume but it would move with considerable hardship on a segment -- well, the farmers of Western Canada

A. That is possible. The western farmer is in this position, in Saskatchewan, there is only one thing he can do, he must raise the grain for export or get out of business. Therefore I assume that if the rates were increased of necessity grain would still move but it would be a great hardship to the farmer.

Q. That was the position as set forth in the brief of the Canadian Pacific and also the evidence given on behalf of both railways by Dr. Edwards.

Now, just one other matter and I will be asking you some questions tomorrow -- if I might I will summarize your depositions in your brief. One, fundamentally you are hear to defend the statutory grain rates; (2) that you say that the problems of the railways arise from the revolution in transportation and (3) that the solution that you have to advance to this commission is that we exempt rail income from income tax and thereby not make that annulment in railway expenses that are made by ....?

A. Well, I -----





1  
2 Q. Are those the three major points in your  
3 brief?

4 A. I would state it somewhat differently.  
5 First, we agree that we are here primarily to defend the  
6 status of the Crows Nest rates. Secondly, -- what was  
7 your second one again?

8 Q. That what you term the revolution in  
9 transportation -----?

10 A. I am sorry I used the term "revolution"  
11 because apparently it was an unfortunate word.

12 MR. HUME: It is a good term.

13 THE WITNESS: The change that has taken place  
14 in transportation has created problems and in our  
15 opinion there is the basic cause of the difficulties  
16 and from that basic cause it spreads out in different  
17 terms. Thirdly?

18 MR. SINCLAIR: Q. That you had the overall  
19 solution?

20 A. What I wanted to correct was that is one  
21 of the solutions which we advocate. We have not attempted  
22 to say all of the various ways in which the railways  
23 may meet this basic problem. We have ventured to come  
24 forward with one solution which is not too far-reaching  
25 we admit but it is there.

26 Q. Well now on that solution it seems to be  
27 a matter of concern in the questions put by Mr. Cooper  
28 and also a matter that you answered in some points put  
29 by Mr. Hume and that was that if this income tax provis-  
30 ion was involved it might be attempted to be extended by





1  
2 others coming forward. To this you said "No" and gave  
3 your reasons. Particular reference was made to the  
4 trucking industry and I was going to suggest this to you  
5 that to alleviate any possibility such as that would  
6 you accept as an amendment to your suggestion that  
7 income tax would not be paid on rail income where the  
8 carrier had 10% or more of its total freight carriage  
9 the movement of grain to export positions at rates  
10 prescribed under the Railways Act. Would you accept  
11 that as an amendment?

12 A. If we could have that in writing we would  
13 consider it but I am not quite sure we can accept it.

14 Q. You will have it in writing when you get  
15 the transcript tonight and we will talk about it  
16 tomorrow.

17 THE CHAIRMAN: We will adjourn now until  
18 10 o'clock tomorrow morning.

19  
20 --- Adjournment  
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ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME NO.

82

DATE

SEP. 9 1960

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I N D E X

Page No.

BROWNLEE, J.E.

Cross-examination

By Mr. Sinclair (resumed)

14294

By The Commission

Mr. Balch

14353

Mr. Gobeil

14357

NO EXHIBITS IN THIS  
VOLUME

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E R R A T U M

VOLUME 81:

Page 14240, line 7:

Delete: "tanks"

Substitute: "tax"

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## ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held in  
the Court Room, Board of Trans-  
port Commissioners Offices,  
Ottawa, Ontario, on the 9th day  
of September, 1960.

### COMMISSION

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Mr. M. Anscomb	Member
Mr. A. M. Balch	Member
Mr. R. Gobeil	Member
Mr. H. A. Mann	Member
Mr. A. Platt	Member

### COMMISSION COUNSEL

Mr. A. G. Cooper, Q.C.	
Mr. G. S. Cumming	
Mr. H. W. Elliott	Adviser
Mr. F. W. Anderson	Secretary
Major N. Lafrance	Assistant Secretary





Ottawa, Ontario,  
Friday,  
September 9, 1960.

---On commencing at 10.00 a.m.

THE CHAIRMAN: Order, please. Mr. Sinclair?

MR. SINCLAIR: Q. Mr. Brownlee, yesterday in Volume 81 at page 14287 I referred you to the proposed legislative changes advanced to this Commission by Canadian Pacific to take care of the situation in regard to the statutory grain rates that was envisaged by the Canadian Pacific and that proposal was set out at page 25 of Exhibit 47. I asked you if you would be good enough to look at that and if you have a suggestion that would strengthen that legislation that we have proposed and still give the farmers the assurance they want would you be good enough to make that suggestion to us for the consideration of the Commission and the Canadian Pacific? Have you had an opportunity to give some thought to that?

A. Yes, Mr. Sinclair. I am sorry, we cannot accept it. The only suggestion I can make would be that you withdraw it for three reasons; first, that it clearly provides that for administrative purposes a sum is to be computed equal to the difference between the gross revenue received pursuant to Section 328(6) and the gross revenue which would have been received if the traffic had moved at an increase of 100 per cent or such other level as the Board of Transport Commissioners may subsequently determine and





1  
2 change and alter. It is our opinion and confirmed by  
3 our solicitors that that constitutes an interference  
4 and change in the whole principle of the Crow's Nest  
5 Pass rates.

6 Secondly, we cannot accept ---

7 Q. Pardon me, first your objection is that  
8 it results in an interference, did you say?

9 A. An interference with the whole principle  
10 of the Crow's Nest rates as now prevails.

11 Q. Yes, and the second?

12 A. The second is that we cannot accept the  
13 cost study as presented largely on the ground that,  
14 however honestly it were compiled, they must be based  
15 largely upon allocation of various general expense  
16 items in which a change in judgment would make great  
17 differences in the results.

18 Thirdly, the suggestion implies a method of  
19 relief from income tax to the railways in the guise  
20 of a subsidy to farmers and that is a conception which  
21 we cannot accept.

22 THE CHAIRMAN: What you suggest to the  
23 Commission is that we leave it alone?

24 THE WITNESS: Yes. Mr. Chairman, our  
25 position here today is that the Crow's Nest Pass rates  
26 are an established fact and that any seeking of remedy  
27 for the problems of the railway company, fundamentally  
28 there is no reason for seeking out one commodity and  
29 trying to give relief to that one commodity only and  
30 the treatment of it.





1  
2 COMMISSIONER ANSCOMB: Mr. Brownlee, I think  
3 you have said this at least a dozen times now and you  
4 have said it to the Chairman, and I think it is very  
5 important. I think your statement indicates that no  
6 matter what anybody may say, no matter if Moses was here  
7 this morning, whatever he may say, you simply take the  
8 view that if there was an agreement, if there is yet  
9 an agreement, that it must hold no matter what happens  
10 despite the fact you have just said that you do not  
11 want to see one item picked out and despite again the  
12 fact that that is the one item that has not been raised  
13 over half a century. In other words, your clients say  
14 to you that you must not move one inch from the  
15 suggested original position; is that it?

16 THE WITNESS: No. I think you must have  
17 completely misunderstood me yesterday.

18 COMMISSIONER ANSCOMB: Then I would like to  
19 hear you because I certainly do not understand it.

20 THE WITNESS: Our position is fundamentally  
21 certain rights were given to the farmers who settle  
22 on the prairies through the section of the Railway Act  
23 which provides a basis of rates. At any time the  
24 railway company feel that the application of that  
25 section creates a hardship and that conditions in  
26 Canada are such that some relief ought to be given to  
27 them then they have a forum and a court to whom they  
28 can go and that is the Parliament of Canada through the  
29 Executive Council. They admit and the whole basis of  
30 this presentation is that the time is not here now





1  
2 because the traffic cannot bear any higher rates. I  
3 said yesterday that just as happened in 1922 if the  
4 time comes again when the general economy of the  
5 prairies is such that some change might be considered  
6 then it is an easy matter either to the railways to  
7 go to the Executive Council or for the Executive Council  
8 to take it up directly. I am sure they will find  
9 the farmers of western Canada perfectly reasonable, and  
10 it is possible that some time in the future another  
11 suspension might be granted just as was granted in  
12 1922.

13 THE CHAIRMAN: That was 1919.

14 MR. SINCLAIR: Q. 1919 to 1922.

15 A. The economic conditions as they prevailed.  
16 But at a time when it is admitted by everyone who study  
17 the situation that agriculture in western Canada is  
18 going through a period when its revenues are not suf-  
19 ficient to take care of the expenses, we say this is  
20 not the time to interfere with the covenant that was  
21 entered into, so aptly expressed by the Prime Minister  
22 of Canada. Give us back wheat at \$2.67 a bushel f.o.b.  
23 Fort William at a time when the gain is not made up  
24 entirely by inflation and the railway can bring the  
25 matter to the Executive Council. Parliamentary  
26 legislation is changed from time to time as circum-  
27 stances provide. We want the question of Crow's Nest  
28 rates left exactly as it is for Parliament to deal with  
29 from time to time as conditions in western Canada  
30 justify. That is what I tried to say yesterday and I





1

2 hope I have made it clear today.

3 COMMISSIONER MANN: If I may just get a  
4 little further clarification: is it then your position  
5 that the Crow's Nest Pass rate structure as it is today  
6 is the basis but that one may depart from the basis for  
7 periods of time as economic conditions in the wheat  
8 industry warrant such departures and those departures  
9 then would be for temporary periods that coincide with  
10 a boom in the wheat industry?

11 THE WITNESS: I think you are stating it a  
12 little differently from the way I would like to state it.  
13 What I am saying is, first of all, there is a basic  
14 covenant upon which the western prairies were settled  
15 and we want it to remain. We are quite amenable at  
16 any time to Parliament exercising its judgment as to  
17 whether for one period or another these rates might be  
18 suspended just as they did at a previous time in the  
19 history of Canada.

20 COMMISSIONER MANN: I understand that now.

21 THE WITNESS: But we do want the rates left  
22 where they are and not to be changed simply under the  
23 guise of a subsidy to the farmers of western Canada  
24 which is in reality a relief in taxation to the railway  
25 company.

26 MR. SINCLAIR: Q. Now, Mr. Brownlee, that  
27 I might understand some of the information that you have  
28 now put on the record, you say that the farmers of  
29 western Canada, in your judgment, when grain was  
30 selling at \$2.67 a bushel f.o.b. Fort William that that





1  
2 would be an appropriate time to put in a proviso?

3 A. No, I don't say that at all. I do not  
4 want any proviso at all because when grain is selling  
5 at \$2.67 for all we know inflation may bring the cost  
6 of operation to double what it is today so that the  
7 position of the farmer would not be any different.

8 Q. That was the proviso I was going to make  
9 reference to. The proviso was that inflation would not  
10 have changed the relative position of the farmer in  
11 relation to that cost as it existed in 1919. Is  
12 that right? In other words, you want to have the  
13 farmers' relative position on revenues and costs as  
14 they existed in 1919 before you think the farmers would  
15 be prepared to carry a higher cost for the movement of  
16 the grain to export positions?

17 A. I am not trying to put this in the form  
18 of a legislative enactment and with all my very high  
19 regard for your ability I do not think you can do it.

20 Q. Let me ask you ---

21 A. I am simply trying to lay down this  
22 principle: leave the Crow's Nest rates as they are at  
23 the present time and at any time in the future when  
24 anyone thinks that conditions are sufficient improved let  
25 them go to Parliament and we will fight it out there.  
26 We will advance at that time such argument as we see  
27 fit when we have any question about a suspension being  
28 granted. I am not going to be led into trying to  
29 state conditions might prevail ten, fifteen or twenty  
30 years from now which would justify a suspension.





1  
2 Q. Well, now, Mr. Brownlee, let us try  
3 to analyse this situation just a little bit because I  
4 think the United Grain Growers and also people who  
5 are not members of your organization but are in agri-  
6 culture in western Canada and many others outside of  
7 agriculture are interested in a solution to this  
8 situation, because this question of Crow's Nest  
9 grain rates has been a constant source of controversy  
10 for the last fifteen years; would you agree with that?

11 A. Well, only to the extent that the  
12 railways have objected to it.

13 Q. Well, I suggest to you that that is  
14 not so. For instance, the Board of Transport Commissioners  
15 themselves have stated on more than one occasion that they  
16 cannot carry out their duties adequately with these  
17 grain rates in effect, you know that?

18 A. Well, I have seen statements from  
19 members of the Board and also from members of the  
20 court. There was one I am sure you agreed with on  
21 the conciliation board just recently. My objection  
22 to all those is just this: I have been brought up  
23 on the assumption that no judgment should be delivered  
24 and no case put in on any matter until all parties  
25 interested have been present and been able to  
26 present their argument.

27 Q. You think that should be applied  
28 without exception?

29 A. If you are going to pass a judgment  
30 which affects somebody else, yes.

Q. I am very glad to hear that, Mr.  
Brownlee because I have been looking for that statement





1  
2 from you in respect to the demurrage on grain and I  
3 am very glad to have it on this record.

4 A. Just a minute now, Mr. Sinclair. I  
5 was rather hoping that you would bring up the question  
6 of demurrage and I want to make a very brief statement.

7 Q. Well, I must say that I am not  
8 undertaking to carry out what I said about finishing  
9 in an hour.

10 A. My statement is very brief. The only  
11 reason I am making the statement is because I have  
12 noticed in the reports references to the injustice  
13 which the railways suffered through demurrage and so  
14 far as we are concerned --

15 Q. Pardon me, and the injustice they  
16 suffered in the way the judgment of the Supreme Court  
17 and the Board was set aside.

18 A. I will modify the statement I made  
19 sometime ago to this extent, that if the circumstances  
20 are so clear and so definite that it is apparent there  
21 is no answer then I would not expect any court to  
22 conduct a hearing. In the demurrage case the  
23 circumstances were just that and you know perfectly  
24 well that the grain companies invited the railways  
25 to sit down and discuss that question and you know  
26 what the answer we received was when we did meet  
27 them and if the railway companies took a position of  
28 that kind I am not surprised at the decision which  
29 was rendered.  
30





1  
2 Q. Well, the facts are there.

3 THE CHAIRMAN: I think we have had enough on  
4 demurrage.

5 MR. SINCLAIR Q: What I do want to analyze with  
6 you is this: what you are saying on behalf of the  
7 western Canadian farmer is, come what may in the  
8 foreseeable future the railways must not receive more  
9 revenue than half a cent per ton per mile for handling  
10 grain?

11 A. If that is all the traffic will bear, I  
12 say that, yes.

13 Q. You and I agreed yesterday, and I think  
14 you accepted the change that what the traffic would  
15 bear without causing hardship on a segment of the  
16 western Canadian public is what the position is.

17 A. And without driving a lot of the farmers  
18 of western Canada off the land.

19 Q. Well, the point is that costs cause  
20 hardship. For instance, increased costs in your  
21 business or increased machinery prices have caused  
22 hardship to the western Canadian farmers, have they  
23 not?

24 A. Costs, yes, have imposed hardship on the  
25 western Canada farmer just the same as on others.

26 Q. Can you tell this Commission one single  
27 item in the farmer's production costs which have not  
28 increased over the last half a century with the  
29 exception of this transportation cost?

30 A. No, I can't; I am not a farmer, but I





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Brownlee, cr-ex. 14303  
(Sinclair)

1  
2 can't.

3 Q. Well, you know pretty well what they have  
4 to pay for things?

5 A. A fair idea.

6 Q. And you can't think of one.

7 A. Yes, I can think of one.

8 Q. What is it?

9 A. The charges that are assessed against them  
10 for storage and delivery of grain. We are operating  
11 at the present time on the same tariffs as we did  
12 fifty years ago.

13 Q. You have not increased your costs for  
14 elevations, storage...?

15 A. We have not increased -- our storage  
16 charges today are one-thirtieth of a cent a bushel and  
17 that was the charge many years ago.

18 Q. Let us do them all at the same time:  
19 storage, elevation, cleaning and all the handling  
20 charges of the U.G.G.

21 A. I am speaking now of the main charges.  
22 There are some incidental charges that do not amount  
23 to a great deal, but here are the main charges, and  
24 I will read this:

25 "The principal source of our revenue  
26 at present is the storage of grain in country  
27 and terminal elevators. The rate for that,  
28 one-thirtieth of a cent per bushel per day  
29 is the same now as it was fifty years ago  
30 and has been for most of the intervening time.





1  
2 During seven years from 1940-41 a  
3 lower rate of one-forty-fifth of a cent  
4 prevailed owing to special circumstances  
5 at the time. During three years from 1948-49  
6 there was a higher rate of one twenty-fifth  
7 of a cent per bushel per day. Otherwise  
8 the storage rate has remained constant  
9 at its present level.

10 Our second most important source of  
11 revenue is a handling charge we collect  
12 from farmers, under an agreement with the  
13 Canadian Wheat Board ..."

14 This applies to 90 per cent of the grain.  
15

16 "...when farmers deliver grain to that  
17 Board at country elevators. That is 4 1/2  
18 cents per bushel on wheat, the same as it  
19 was in 1939-40..."

20 Q. What was it in 1897 or 1900?

21 A. Of course, you are aware at that time the  
22 Canadian Wheat Board was not in existence.

23 Q. But what did the U.G.G. charge?

24 A. The U.G.G. charged at that time a storage  
25 charge of one-thirtieth of a cent per bushel, and we  
26 charged -- I think I will come to that later on in the  
27 last paragraph. May I go on:

28 "That is 4 1/2 cents per bushel on  
29 wheat, the same as it was in 1939-40, except  
30





1  
2 for the fact that in that year a higher rate  
3 prevailed on lower grades of wheat which is  
4 not now the case. Rates have been at present  
5 level since 1948-49. Somewhat lower rates  
6 were in effect during a seven year period  
7 ending in 1948."

8 Now, this is probably what you are coming at:

9 "The tariff charge for elevating wheat  
10 in country elevators was one and three-quarters  
11 cents per bushel during a long period ending  
12 in 1946. By several successive steps of  
13 one-eighth of a cent or one-quarter of a  
14 cent per bushel it was advanced to the  
15 present two and a half cents per bushel.  
16 The changes have comparatively little  
17 importance because no longer is much  
18 grain handled under that rate."

19 None of the grain which goes to the Canadian Wheat  
20 Board is handled under that rate.

21 "Most of our receipts are governed  
22 by the handling agreement at the rate I  
23 have mentioned which because it covers  
24 additional services makes the cost to the  
25 farmer practically the same as if the  
26 tariff rates were in effect."

27 Q. Didn't your company on more than one  
28 occasion apply to the Board of Grain Commissioners for  
29 rights to adjust upwards their handling charges to  
30 meet increased costs over the last fifteen years?





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A. We did on one or two occasions but the application was not granted, and I am replying to your question that the farmer is not paying a greater charge. So, that is not an increased cost.

Q. Isn't whatever the Wheat Board pays in increased charges reflected back into the farmer's return?

A. Yes, it is, but there has been no increase.

Q. The storage charges that you talk about have been very profitable charges for the terminal elevator operators, have they not? You have always made a substantial profit on your terminal elevators in recent years; correct?

A. I would not use the word "substantial". I would say that we have derived a fair profit from the operation of our terminal elevators and again, since the question is asked, I think the Commission is entitled to the reason for it, and the reason is simply that because of international circumstances we have had an accumulation of grain which has meant that for some years past the volume of grain handled at our terminals has been large.

THE CHAIRMAN: Your elevators have been full?

THE WITNESS: The volume of grain stored at our terminals has been large; they have been full.

MR. SINCLAIR Q: And that fact is reflected in the one-thirtieth of a cent per day for storage and is the reason why that cost has not been increased; isn't that so?





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A. That is the case but ---

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Q. And when the cost was ---

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A. Excuse me; for the same reason because  
of increased volume your business has improved and  
is much better than it otherwise would have been.

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Q. Let us just stay with this, because what  
the railway business and the effect of costs on the  
railway business in the handling of grain has been  
dealt with in these proceedings. They were there and  
you had counsel here who cross-examined and the record  
speaks now.

13

14

MR. FRAWLEY: If I may say so, they have been  
partly dealt with, Mr. Chairman.

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THE WITNESS: I just want to get this clear:  
I am before a Royal Commission and I am assuming that  
when you ask me a question I am entitled to give an  
answer.

19

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MR. SINCLAIR Q: Well, I certainly would not  
expect otherwise, Mr. Brownlee.

21

A. Well, let us proceed on that basis.

22

23

Q. I think you have that right not only  
before a Royal Commission but anywhere that you go.

24

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A. Well, you seemed to take offence, or  
seemed to feel I should not have gone into the  
question of your earnings, and I think it is pertinent.  
That is the difference between us.

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Q. I don't take offence, Mr. Brownlee;  
certainly not from anything you say. The point I wish  
to make with you, sir, and I think you will agree with





1  
2 me is that the U.G.G. have down through the years  
3 adjusted their charges in accordance with the changed  
4 conditions and the cost of doing business?

5 A. No, that is not correct, sir. United  
6 Grain Growers has done exactly what all other  
7 elevator and terminal companies have done who are agents  
8 for the Canadian Wheat Board. We have fixed our  
9 charges every year in accordance with the rulings of  
10 two boards: the Board of Grain Commissioners which  
11 deals with any small amount of grain which the Canadian  
12 Wheat Board does not handle, such as flax and rye;  
13 the Canadian Wheat Board with respect to grains which  
14 they handle and which we only handle as their agent.

15 Q. But in fixing those charges, you fix  
16 those charges in relation to your cost and a fair  
17 profit? That is the position you take, isn't it?

18 A. On our overall operations.

19 Q. Are you suggesting that there is any  
20 large segment of your business, for instance, the handling  
21 charges on oats or barley, are not remunerative to you?

22 A. Mr. Sinclair, that is something which --  
23 one of the reasons why we object to this cost analysis  
24 which you have made. We too have -- we don't have the  
25 electric computers, but we have first class business  
26 machines, and to attempt to segregate our costs as  
27 between wheat, and all the one hundred grades of wheat,  
28 oats, with all the different grades of oats, and barley,  
29 would be impossible because it would simply involve  
30 arbitrary decisions which may or may not be correct.





1  
2 Q. Have you ever made a case before the Board  
3 of Grain Commissioners or the Wheat Board where you  
4 show that your costs were greater than the revenues  
5 for a large segment of your business and asked for an  
6 adjustment of charges in that regard and were refused?

7 A. No, we do not. For example, yesterday  
8 the grain companies appeared before the Canadian Wheat  
9 Board to have our rates fixed for this year, and all  
10 that the Canadian Wheat Board did -- at least, I assume  
11 they did -- and all we did was to indicate what our  
12 results overall had been during the previous year and  
13 what we think they may be this year, and on that basis  
14 the Canadian Wheat Board tells us under what rates we  
15 must operate this year. For your information they  
16 said we will operate under the same rates that prevailed  
17 last year.

18 Q. If you had had a wage increase in all  
19 employees of, to take a figure out of the air, two  
20 per cent and you could not offset that, would the  
21 Wheat Board have given recognition to that?

22 A. We have had wage increases every year  
23 for I don't know how many years, and we are still  
24 operating under the same rates.  
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Q. I am sure it is my fault, but let me put it to you again: If, in the last year, you had had several increases of 2 per cent which couldn't be offset in any other way by borrowing, or by efficiency -- showing right through -- would the Wheat Board, in fixing your prices, have given weight to this fact, based on your experience, Mr. Brownlee?

A. Well, I have to answer to the best of my ability in this way, that we have had, for the past two years, increases of more than 2 per cent -- I think they have averaged over 3 per cent -- in our wage scale. In our negotiations with the Canadian Wheat Board we have not got down to details of that kind. The Wheat Board looks at our overall position, our overall earnings and fixes the prices for another year on the basis of that.

Q. And the basis of that is that you said -- I think this is correct, but you can correct me if I am wrong -- you said that would result in making a small profit, but...

A. A reasonable profit. I think all of the companies this year intimated that their earnings would be down substantially, but, nevertheless, we are operating under the same rates.

Q. And making a reasonable profit?

A. We won't make the profit we have made, but I am hoping that we will get by.

Q. You have had some pretty substantial profits in the U.G.G. in your terminal operations in





1  
2 the last ten years, haven't you? --

3 MR. HUNTER: Mr. Chairman, I am wondering  
4 as to the relevance of this. I have no objection to  
5 the question and I am sure Mr. Brownlee is prepared  
6 to answer, but it seems to me that the problem before  
7 this Royal Commission is not whether the U.G.G. has  
8 made exorbitant profits, or any profits.

9 I am wondering whether we are running a little  
10 afield?

11 THE CHAIRMAN: My colleague here, in  
12 particular, says he would like to know.

13 THE WITNESS: Well, now, my attention was  
14 distracted for a moment and would you oblige me by  
15 repeating the question?

16 MR. SINCLAIR: Q. My question is this to  
17 you, that on your terminal operations -- the terminal  
18 end of it -- you have, in the last ten years, in your  
19 various terminal operations at the coast -- which is  
20 what I have most knowledge about -- you have made a  
21 substantial profit -- that is, on terminal operations  
22 as distinct from line operations? --

23 MR. HUNTER: Other income?

24 MR. SINCLAIR: No; I think Mr. Brownlee  
25 would agree that any line elevator company should have  
26 some terminal operations to assist in its line operations  
27 as it is an integrated market.

28 THE WITNESS: I agree that as conditions are  
29 today in the grain business our terminal facilities  
30 are essential to a well-rounded business.





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2 To answer your question, we do not segregate,  
3 and, again, we have not tried to segregate carefully,  
4 the earnings of our terminal operations as compared  
5 with our country. There is a good reason for that.  
6 The question comes up immediately: What is the  
7 relation between your terminal and your country elevators?  
8 If we did not have terminals we would have to pay other  
9 companies for handling the grain that goes through  
10 our terminal. Now, we have not attempted to apply  
11 any such principle as that to our operations, and  
12 so we simply take the earnings of our combined country  
13 elevators and terminal operations, and that is shown  
14 on our public accounts and in our reports to our share-  
15 holders -- at least, it has been since the time when,  
16 for a while, we operated our terminals under a sub-  
17 sidiary company.

18 Q. When did you make the change?

19 A. Oh, I don't know -- 10 years ago, or 8  
20 years ago, I might say.

21 Q. But up until that time you kept them  
22 segregated?

23 A. We kept them segregated in a way, but,  
24 again, we did not attempt to go into the proper charges  
25 which the terminal company should make as against the  
26 country elevator department; that is, in order to  
27 compare the operations with what would happen if we  
28 did not have the terminals, which, we think, is a fair  
29 test.

30 Now, I would not go out of this witness box





1  
2 without being fair to the Commission and saying at  
3 the present time because of volume which keeps our  
4 facilities running -- 100 per cent, pretty much --  
5 I think we are making a reasonable profit on our  
6 operations, country and terminal. That would be  
7 changed -- that will be changed -- very greatly, de-  
8 pending upon the export operations of the Canadian  
9 Wheat Board, and whether those operations this year  
10 may result in either our terminals or our country  
11 elevators operating for a considerable portion of time  
12 with a great deal of empty space. All our operations  
13 depend on the Canadian Wheat Board.

14 Q. Mr. Brownlee, you have been able to  
15 determine and segregate out the situation of a terminal  
16 elevator, even down to one single terminal elevator,  
17 and even down into a part of that terminal elevator --  
18 and I have reference to Vancouver. You have made  
19 calculations and presented figures as to loss of profit  
20 even from part of an elevator, haven't you?

21 A. At Vancouver? Oh, well, now, Mr.  
22 Sinclair, I know what you are getting at. That was  
23 one occasion on which you and I worked very pleasantly  
24 together.

25 MR. SINCLAIR: Yes; I always knew I got  
26 beaten!

27 THE WITNESS: We made, on that occasion,  
28 under most difficult circumstances, a rough calculation  
29 of what we might earn in a year at Vancouver.

30 Q. Well, I don't agree with your putting





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2 in the word "rough" there, because it was all handled  
3 by cost accountants and management at that time  
4 presented a lot of statistical material and presented  
5 voluminous statistical material as to...

6 A. We presented such material as we could  
7 with the facilities at hand.

8 I say, again, that we have never been able,  
9 and never have tried, to get down to a cost study which  
10 would reveal accurately the earnings of any segment  
11 of our business such as has been made here.

12 Now, may I say, again -- and I am anxious  
13 to give our viewpoint about this to the Commission --  
14 I would like to say this, that when we installed --  
15 and I think we were the second company to install them --  
16 the calculating machines we tried, and tried hard,  
17 to work out a basis of calculation which would tell  
18 us which of our 700 elevators were operating at a  
19 reasonable profit and those which might be operating  
20 at a loss. We spent months in trying to work out  
21 the allocations of major expenses in a way we thought  
22 advisable. We went on the principle that you couldn't  
23 get a picture in one year, that nothing less than  
24 five years of our operations, because of changed  
25 conditions, would give us the picture. At the end of  
26 the five years we saw the results and we found, or we  
27 felt, that they were quite unfair against one segment  
28 of our operations in favour of another. We set to  
29 work and, again, spent months in trying to review our  
30 allocations of those large items of expense and





1  
2 finished the second 5-year period with a result at the  
3 other extreme.

4 We are convinced that we have not yet been  
5 able to use our machines in such a way that you can  
6 get an absolutely accurate index of the earnings of one  
7 segment of our business as against another; there are  
8 too many arbitrary calculations which have to be made.

9 THE CHAIRMAN: There is too much integration?

10 THE WITNESS: Too much integration, yes.

11 MR. SINCLAIR: Q. Mr. Brownlee...

12 A. Yes. Since you have raised this question,  
13 Mr. Turgeon -- I am sorry, Mr. Sinclair...

14 MR. FRAWLEY: Call him the second Turgeon!

15 MR. SINCLAIR: Mr. Brownlee, don't let that  
16 voice disturb you. Those are just little rumblings  
17 of the brook! He brought about the second Turgeon  
18 Commission and it has been on his conscience all the  
19 time.

20 MR. FRAWLEY: You won't find Mr. Brownlee  
21 disturbed by anything that Mr. Frawley can say.

22 THE WITNESS: He was on my side as an  
23 excellent helper for too long a time for me to have  
24 other than a great regard for his judgment.

25 I am encouraged in making the reply which I  
26 have made when I read this from the conclusions and  
27 the recommendations of the Turgeon Commission:

28 "Both the Canadian and Canadian Pacific  
29 Railways expressed the view that seg-  
30regation of revenue and expense accounts





1  
2 between freight and passenger traffic  
3 would be of little or no possible  
4 value to the railways. The cost  
5 would be expensive and would, in any  
6 event, be an arbitrary, statistical  
7 and theoretical suggestion."

8 I apply those words exactly to the  
9 analysis of our operating results as between country  
10 and terminal elevators. We can't segregate them  
11 accurately.

12 MR. SINCLAIR: Q. I am sure you will know,  
13 and you will pardon me for telling you this, that the  
14 costing of railway operations is one part of the science  
15 of statistics and cost accounting that has made most  
16 rapid progress in the last ten years and the data that  
17 was advanced to the Turgeon Commission is not the type  
18 of data which is being advanced here?

19 A. Certainly, we have made advances, but  
20 I still say that, in my opinion, many of our costs  
21 under the present conditions are arbitrary allocations,  
22 and I do not know of any better proof, or anything  
23 better to substantiate what I am saying, than the  
24 fact that, after all the months of calculating the  
25 costs, within a few weeks after this Commission started  
26 I believe you, sir, came into the Commission and had  
27 to make a revision which made a very considerable  
28 change in the result of the cost studies.

29 Q. Well, Mr. Brownlee, I won't follow that  
30 up with you. The changes that we made we explained





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2 why they were there, and they may be of some assistance,  
3 I think, to both of us.

4 You don't pretend that you, Mr. Brownlee,  
5 are a statistician or cost accountant?

6 A. I hope I am humble enough to say that.

7 Q. But you do agree there are people who  
8 have given a great deal of their time to that field  
9 and who are people who do honest work and do present  
10 information which, today, is relied upon by business  
11 to a far greater extent than it was even three years  
12 ago?

13 A. I want to make myself clear if I haven't  
14 done so already. I am casting no aspersions whatever  
15 on any man who calls himself a cost auditor. I  
16 believe they enter into their duties honestly, to the  
17 best of their ability, but I am simply saying that  
18 in spite of every improvement today and all the  
19 advances which have been made a great part of this  
20 study is made up of arbitrary decisions as to how  
21 much of a certain expense shall be charged; and I  
22 believe that Mr. Gordon himself, in appearing before  
23 the Railway Committee of the House, said just that  
24 with regard to passenger traffic -- that he had been  
25 presented with three different formulae and he hadn't  
26 yet decided which one he could use.

27 Q. Now, Mr. Brownlee, on the point that  
28 you have made to this Commission, first, if you will  
29 turn to your page 29 -- and I think there are a number  
30 of points that I might ask you questions about,





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because I think what the Commission really wants is  
your feelings about these matters in speaking for  
western agriculture.





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2 Now, I would ask you to have before you  
3 page 25 of Exhibit 47 because it is necessary for me to  
4 look at these things together. May I suggest to you  
5 when you presented this that you were not looking at the  
6 proposal of Canadian Pacific, but were rather looking  
7 at the proposal, possibly, of some other person who  
8 advanced a proposal as to legislative change?

9 A. You are referring to page 25 and Section  
10 79?

11 Q. I am referring to page 29 of your sub-  
12 mission.

13 A. I know, but you say I referred to the  
14 wrong thing.

15 Q. I mean, when you were putting together  
16 page 29, section 8.

17 A. Oh, I beg your pardon.

18 Q. You didn't have in mind the Canadian  
19 Pacific proposal; is that correct; you had in mind  
20 a different proposal?

21 A. No.

22 Q. Is that correct?

23 A. No. Mr. Griffin who, to a large  
24 extent is the author of this brief, I am quite sure  
25 had in mind the Canadian Pacific proposal.

26 Q. Then, let us look at it. First off,  
27 the Canadian Pacific proposal does not involve two  
28 Acts of Parliament, does it?

29 A. Yes.

30 Q. It does not involve two Acts of Parliament.





1  
2 A. Well, I would disagree with that, be-  
3 cause under your proposal you first of all have Section  
4 328, subsection 6.

5 Q. Yes?

6 A. And then they must introduce an Act  
7 amending the Income Tax Act, and so there must be two  
8 separate Acts before the House.

9 Q. They must introduce an Act amending the  
10 Income Tax Act in the Canadian Pacific proposal? With  
11 respect, no, sir; it is drafted in such a way as to  
12 obviate that very thing.

13 MR. HUNTER: I think that this is legal  
14 argument, notwithstanding anything in the Income Tax  
15 Act. The Income Tax Act is the charging Act, and if  
16 there is to be a forgiveness under the taxation Act  
17 I think it must be found in that Act.

18 THE CHAIRMAN: It is a matter of draftsman-  
19 ship.

20 MR. HUNTER: I think that is what we had  
21 in mind.

22 THE WITNESS: I will change my answer in  
23 this respect; I was a little confused for a moment.  
24 You will still have section 328(6) and you are going  
25 into Parliament asking for an addition to the Railway  
26 Act.

27 MR. SINCLAIR: Q. That is what you have  
28 in mind?

29 A. What I had in mind was this: Parliament  
30 cannot deal with your proposal without having something





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else before it besides an Act which has been in  
existence for some time.

Q. Now, the position of the UGG is that  
section 328(6) as it is now in effect, should remain?

A. Yes.

Q. Under the Canadian Pacific proposal  
section 328(6) as it is now in effect does remain; that  
is correct, isn't it?

A. Well, I am not answering that yes or no,  
Mr. Sinclair; I simply have to say to you that to me  
when Parliament introduces an addition to the Railway  
Act which says that the rates under the Crow's Nest  
Pass provisions, subsection 6, are to be increased  
by 100 per cent, that you have changed and destroyed the  
effect of that subsection.

Q. Well, Mr. Brownlee ---

A. Mr. Sinclair, does it not appeal to you  
that when Parliament does that it is serving notice on  
the world that not only are the rates inadequate but  
that they must be increased by 100 per cent?

Q. Well, I am not here to answer questions,  
but I am always glad to give you my views, Mr. Brownlee,  
and if the Commission will permit me to say so, I cer-  
tainly do not agree with that whatsoever, and I must say  
also, Mr. Brownlee, this, now that you have asked me  
to say something, I must also say this: it is a matter  
of keen disappointment to me personally and to a number  
of other people that pride in the Crow's Nest situation,  
in the statutory situation, has got to such a point





1  
2 that western Canadian agriculture cannot see the ad-  
3 vantage to themselves and to something that they require  
4 being preserved; honestly, an attempt is being made to  
5 preserve their situation and at the same time to be  
6 realistic in the light of facts.

7 Now, I wouldn't have said that, sir, unless  
8 you had asked me to.

9 A. I don't object to your saying that, sir,  
10 in the least, and it doesn't change my opinion one  
11 iota.

12 Q. It just happens, Mr. Brownlee, that maybe  
13 even western people can disagree on things such as this.

14 A. That is right, and I hope we will always  
15 disagree in the way we have in the past.

16 Q. There is one other thing which I would  
17 like you to also give me some clarification on. Under  
18 the Canadian Pacific proposal it had considered the  
19 very fact that you objected to, that there was going to  
20 be periodic applications to Parliament that might cause  
21 difficulty, and it specifically sets that aside as a  
22 proposal, and under this proposal it wouldn't require  
23 periodic applications for increases to meet the need,  
24 as you stated, on page 29 of your submission, and  
25 you would not agree that the Canadian Pacific proposal  
26 does not ---

27 A. If you say to me, Mr. Sinclair, that  
28 your proposal does not go as far as the plain wording  
29 of this proposed addition, then I have to accept it, but  
30 I also have to say to you that our reading of Mr.





1  
2 Gordon's evidence ---

3 Q. Mr. Gordon did not deal with this pro-  
4 posal, he dealt with a very different proposal, and  
5 that is why I think we are at cross-purposes here.  
6 There is a very different proposal advanced by the  
7 Canadian National and Canadian Pacific, and what you  
8 say here on page 29 of your submission in section 8  
9 might well be applicable to the Canadian National  
10 proposal but I suggest it does not ---

11 A. I still don't think I am wrong, and  
12 pardon me if I complete my sentence. Mr. Gordon stated  
13 that in computing the relief which would be given to  
14 the farmers in the nature of a subsidy applied --  
15 and there was a difference of opinion as to how it  
16 should be applied with respect to income tax -- that  
17 he contemplated that there would be a review, and I  
18 think you will find, if I am not mistaken, I think  
19 you will find that plainly stated in his evidence  
20 before this Commission.

21 Q. The Canadian Pacific proposal is what  
22 I am specifically interested in and which I would like  
23 to deal with.

24 A. I understand you to say now that you  
25 don't ask for a review by the Board of Transport  
26 Commissioners?

27 Q. That is not what I say. You say that  
28 the rate must be introduced by Parliament as a condition  
29 of granting the proposed subsidy and must be subject  
30 to periodic applications for increases to meet the





1  
2 needs of the railways. Then, further, and I am  
3 reading from page 30, you say:

4 "Each such occasion would give rise  
5 to reproach against the grain producers  
6 of the prairies and each would bring  
7 into jeopardy the freight rates essential  
8 to the grain growing industry of the  
9 prairies."

10 But by repeated votes of funds. Now, there is no  
11 votes of funds in the Canadian Pacific proposal; that  
12 is my point, so that the Canadian Pacific proposal  
13 does meet that objection. Would you not agree?

14 A. No, I would not agree to that, Mr.  
15 Sinclair, because your proposal cannot be accepted  
16 alone, your proposal has to be interpreted in its  
17 application to the Canadian National Railways, and if  
18 your proposal were accepted tomorrow, I still insist  
19 that Parliament would have to vote from year to year  
20 the contributions which have been made to the Canadian  
21 National Railways and in this way this whole question  
22 would be before Parliament practically every year.

23 Q. Well, then, Mr. Chairman and members of  
24 the Commission, Mr. Brownlee, I think I understand  
25 your position, and further than that I can, of  
26 course, argue the situation when the Commission gives  
27 me time.

28 Now, I want to deal with something a little  
29 different. Mr. Brownlee, you recognize, do you not,  
30 that under the law all freight rates with the exception,





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2 and the only exception being statutory rates on grain  
3 and grain products that we have been talking about,  
4 must be such as to meet their variable costs and  
5 something in addition; that is the only exception on  
6 any rates under the Canadian freight rates structure  
7 that does not meet that. My friend Mr. Hunter appar-  
8 ently doesn't think that is the law, but would you take  
9 it, Mr. Brownlee, that no rate under the Canadian  
10 freight rates structure can remain as a legal rate  
11 if it doesn't meet these variable costs and something  
12 in addition, with the sole exception of the statutory  
13 rates on grain and grain products under section 328?

14 MR. FRAWLEY: I would like to make a statement.  
15 My friend must be referring to section 334 of the  
16 Railway Act; I can't think of any other section. That  
17 section has no sanction. It says that the Transport  
18 Board may upon complaint, or perhaps even without com-  
19 plaint, investigate to find out if a rate is compen-  
20 satory, as compensatory has been defined, that is all.  
21 It doesn't say what the Board will do if it finds it  
22 is not compensatory, so let us stick to what the  
23 Railway Act says, whether adequate or inadequate, and  
24 I am certainly not here for the grain growers, but I  
25 feel in justice to the interests that I do represent  
26 that I must say that my friend can only be looking at  
27 section 334.

28 THE CHAIRMAN: What section have you in mind?

29 MR. SINCLAIR: I base this -- and this is  
30 the second or third time this has been put forward, and





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2 I am indeed surprised that Mr. Frawley rises in these  
3 circumstances -- and I say that under the Railway Act,  
4 section 328, in the competitive rate section 334 under  
5 the Transport Act and under the established basis of  
6 rate making as interpreted by the Board of Transport  
7 Commissioners for many, many years the rate cannot be  
8 a just and reasonable rate and a legal rate unless it  
9 meets the variable costs and something in addition.

10 COMMISSIONER MANN: I wonder if you would  
11 give us, Mr. Sinclair, the section under the Transport  
12 Act that requires the rates to be compensatory? I  
13 would think it would be under section 32, would it not?

14 MR. SINCLAIR: Yes, it turns on the net in-  
15 come. You have to look at two sections.

16 COMMISSIONER MANN: Isn't that on appeal?  
17 It is only when an agreed charge is being brought to an  
18 appeal before the Minister, but as I recall it it doesn't  
19 deal at all with the situation that arises when there  
20 are agreed charges being made without protest.

21 MR. SINCLAIR: No, but under section 32,  
22 subsection 6, it must be made on an established basis  
23 of rate making, which I say includes that, and that  
24 is further carried on by section 33, which is the one  
25 I think you have in mind, subsection 3, where the net  
26 revenue position of the carrier is always taken with  
27 respect to any given rate, so on both these grounds  
28 you would find your answer.

29 COMMISSIONER MANN: I think I understand it;  
30 you interpret the established basis of rate making to





1  
2 have some connection with what is set out in the  
3 Railway Act and it should be a compensatory thing  
4 rather than that the rates must be in cents per  
5 hundred pounds.

6 MR. SINCLAIR: That is one of the things.  
7 I agree that the established basis of rate making is  
8 a term that includes many things and I am astounded  
9 that anybody would suggest that rates can remain in the  
10 rate structure as it exists today and not meet variable  
11 costs and something in addition, with the sole ex-  
12 ception of the rate provided by subsection 6 of  
13 section 328.

14 THE CHAIRMAN: What is your question, again?

15 MR. SINCLAIR: I am asking Mr. Brownlee, and  
16 I prefaced this by telling him that had he known that  
17 there was no rate in the rate structure that could be  
18 on a basis less than variable cost and something in  
19 addition, with this exception, that that was so, and  
20 I was waiting to move on from there.

21 MR. HUNTER: The reason I turned to make a  
22 formal objection to Mr. Sinclair's statement was that I  
23 thought his words were in the law and that rate matters  
24 provided for variable costs, and I wanted to know where  
25 that was in the Act, and I think it is now clear that  
26 under the Railway Act the Board must be satisfied that  
27 the rates are just and reasonable, and under certain  
28 other sections they look at the question of their being  
29 compensatory, but there is no statute which I know of  
30 that says a rate must provide for variable costs, and





1  
2 Mr. Sinclair modified that and said in the application  
3 of this law by the Board of Transport Commissioners  
4 regard had been had to variable costs, but that is  
5 different than saying to the witness that the law  
6 provides so and so.

7 THE CHAIRMAN: You had better start again.

8 MR. SINCLAIR: The law includes both the  
9 statute and the Decision of the Board.

10 THE CHAIRMAN: We will adjourn now.

11  
12 ---Recess.  
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2 Q. Just before the recess there was a  
3 question I was dealing with: under the Canadian  
4 freight rate structure all rates with the sole  
5 exception of rates provided under sub-sections  
6 6 and 7 of section 328, that is, the statutory  
7 rates on grain, were required to be just and  
8 reasonable and that meant that they met the variable  
9 costs and something in addition, and I ask you if  
10 you recognize that in your presentation. You knew  
11 that?

12 A. Now, may I reply in this way: I have  
13 heard this argument, of course, and my first  
14 difficulty is that I think there have been more  
15 variable meanings to the words "variable cost" than  
16 any other words I have run across, and just what  
17 they mean I don't know. Different definitions  
18 have been given at different times. The simplest  
19 definition to me, was the one given by Mr. Gordon  
20 and by my friend Mr. Frawley, and that is simply  
21 "out-of-pocket cost". I want to suggest to you,  
22 sir, that with respect to no other commodity has  
23 there been any attempt made to fix the costs to  
24 the extent that you have tried to do with this one  
25 commodity, grain. I am suggesting to you that if  
26 a cost analysis were made relating to some of the  
27 other commodities handled under agreed or competitive  
28 charges that the results would be quite different  
29 in relation to the Crow's Nest Pass rates.

30 Q. In what way, may I ask?





1  
2 A. I will give you one illustration: out-  
3 of-pocket costs, to me, do not include a rate of  
4 9.25 per cent on all equity and on all reserved  
5 funds. That is a cost you hope to get, but it is  
6 not an out-of-pocket. Has there been any attempt  
7 at all on the part of the Board of Transport  
8 Commissioners or the railways to go over the list  
9 of commodities handled under agreed charges or  
10 competitive charges and to assess against them all  
11 of the different elements of cost that have been  
12 assessed against grain?

13 Q. If you are asking me that question the  
14 answer is, yes, numerous cost studies have been made.

15 A. To the same extent as this?

16 Q. Indeed, this Commission itself has,  
17 through its technical staff.

18 A. Have they been made public?

19 Q. Oh, no sir.

20 MR. FRAWLEY: I challenge my friend when he  
21 says on any agreed charge -- let him pick anyone he  
22 wants -- has it been subjected to the kind of cost  
23 analysis that we heard from Mr. Stenason. Surely  
24 my friend does not mean to suggest that. If my  
25 friend is making a statement to the Commission that  
26 only with the exception of the statutory rates is  
27 any commodity carried at less than cost I ask him  
28 to look at some of the rates in the statement I have  
29 filed, the statement of the train movements and the  
30 grain trade, Port Arthur to Montreal and Halifax, and





1  
2 several others of that sort, where you are down to  
3 about five-tenths and six-tenths of a cent per ton  
4 mile.

5 MR. SINCLAIR: In regard to the grain rates,  
6 the evidence before this Commission is that they  
7 are being looked at, and I can tell my friend ---

8 THE CHAIRMAN: Well, we have experts watching  
9 you all.

10 MR. SINCLAIR: And I can tell him -- and this  
11 is anticipating some proof we will be filing next  
12 week in accordance with the direction of the Commission --  
13 that there is now underway, as was indicated some  
14 months ago by Mr. Edsforth, that the situation in  
15 regard to these grain rates, and I am sure my friend  
16 knows ---

17 THE CHAIRMAN: Well, I think we can leave that  
18 now because we have had experts of the Commission  
19 watching your people and Mr. Frawley's and everyone  
20 else's.

21 MR. SINCLAIR: Yes, but I do think, Mr.  
22 Chairman, that there are a great number of people  
23 who have overlooked the fact that the Board of  
24 Transport Commissioners do a lot of things that  
25 even Mr. Frawley doesn't know about even though he  
26 is in there quite often, and that they have a section  
27 on costing and that these people have had numerous  
28 interviews and consultations with the railway about  
29 rates and about particular costing techniques. This  
30 Commission knows it has a right to get information





1  
2 that is not disclosed to Mr. Frawley; but the  
3 witness Mr. Brownlee is a very distinguished  
4 gentleman and he would not know all these things,  
5 and my answer to him is that this Commission has  
6 had made available to it cost studies, knowledge,  
7 information, to some of its technical staff in  
8 interviews of which I happen to have some knowledge.

9 THE WITNESS: Well, Mr. Sinclair, I don't  
10 think there is any good purpose to be served by  
11 debating this question further with you because you  
12 have stated your view and I wish to state mine again,  
13 that to my knowledge nothing has been made public  
14 which those who are interested in the grain trade  
15 can study to indicate that assessment of all charges  
16 which have been assessed against the grain trade  
17 have been assessed against other commodities; and,  
18 secondly, even if that were the case then the whole  
19 question comes up as to the proper basis of  
20 assessment with respect to the grain trade having  
21 regard to the fact that it moves great distances  
22 in great volume and heavy carloads, and that on the  
23 basis of other costs, such as car costs or train  
24 costs, it shows itself to be much more remunerative  
25 than many of these other commodities. Before I  
26 would be convinced that your statement is correct  
27 I would want the opportunity of having such technical  
28 men as we have -- Mr. Stimson and others -- make  
29 an examination for that purpose.

30 Q. Just because you have done this again --





1  
2 you did it yesterday -- I am sure you would not  
3 want it to be left alone: you took Canadian Pacific  
4 averages of cars and train weights and you, I am sure,  
5 know that in the grain gathering system of western  
6 Canada there are very large movements of grain that  
7 don't operate on these averages but very much below  
8 them, because the averages you put before the  
9 Commission yesterday were worked on eighty and one  
10 hundred car trains which I am quite sure you would  
11 be the first to admit are not the type of trains  
12 that are doing the gathering operation throughout  
13 western Canada on grain into the main line.

14 A. I am quite prepared to admit trains  
15 work on the branch lines and on some very small branch  
16 lines, but in the last number of years if you look  
17 at the change in carload capacity and axle weight  
18 and the number of cars that can be hauled, in my  
19 opinion there is an earning shown there that goes  
20 a very long way to offset any increased cost. I  
21 can't do any more than say that and that you and I  
22 have to disagree.

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1  
2 Q. Yes, but what I am saying to you and  
3 I think you will agree with me, you cannot take the  
4 average of all trains on the Canadian Pacific to look  
5 at grain, taking the grain as a main line movement  
6 of eighty or one hundred cars.

7 A. I do not know that I agree with that  
8 statement.

9 Q. Pardon me while I finish this -- because,  
10 Mr. Brownlee, a very large proportion of the movement  
11 of grain in western Canada is in the gathering opera-  
12 tions into the main line point for movement to the  
13 terminal; that is right?

14 A. That is true. We have other commodities  
15 starting at a point and spreading out in a fanlike  
16 position so in getting averages on other commodities  
17 you should have a similar situation to that in grain.

18 Q. Have you ever studied this, Mr.  
19 Brownlee?

20 A. No, not to the extent of a technical  
21 examination, and if I appear to be giving evidence here  
22 beyond my depth I will have to ask the forgiveness  
23 of the Commission.

24 Q. Now, if in point of fact the rates on  
25 all other commodities reflect costs and something in  
26 addition, and that is not possible to be done with  
27 grain, that presents a problem. You would agree to  
28 that, that presents a problem?

29 A. No. You are asking me a question that  
30 I will not say yes or no to, because I would like to





1  
2 consider it. I think there could be answers to what  
3 you have to say because may I just make this observation  
4 that in my judgment concessions are made in grain rates  
5 and commodities because of the additional business  
6 and which might go to a railway or to the community  
7 as a result of those concessions, and there is no  
8 commodity which makes the contribution to the well  
9 being of Canada to the extent that grain does. For  
10 that reason if for no other, I get back to this, that  
11 these rates were established in the first place in  
12 the national interest, they have been continued in  
13 the national interest, and until you can show me that  
14 there are very great changes in the national economy  
15 I say they should be continued even if there might be  
16 some slight discrepancy in the net position.

17 Q. Now, if something is in the true national  
18 interest that is for the benefit of all Canadians, that  
19 is something that should be continued? We can agree  
20 on that?

21 A. Oh, yes, in a very general way. I want  
22 to see what you are leading up to first before I answer  
23 the question.

24 Q. You are getting altogether too suspicious.

25 A. Well, I have been suspicious, Mr. Sinclair,  
26 of the persistent effort to tie up the Crow's Nest rate  
27 with income tax or with something else.

28 Q. Well, Dr. Brownlee, it is such a big  
29 problem and is of such depth that our persistence must  
30 continue, I suggest, for the benefit of all Canadians.





1  
2 What do you say to that?

3 A. I don't agree.

4 Q. And at the same time, if, and I think we  
5 can agree on this, the national interest requires that  
6 grain move to export positions at no greater cost than  
7 it is now for the foreseeable future?

8 A. I beg your pardon.

9 Q. That it is in the national interest that  
10 grain and products move to export positions at no  
11 greater cost than now moving for the foreseeable  
12 future?

13 A. Agreed.

14 Q. And that that national interest ---

15 A. Mr. Sinclair, may I ask the reporter to  
16 read back your previous question and my answer so that  
17 I may be sure my answer was what I intended?

18 Q. Certainly.

19 THE REPORTER: "Well, Mr. Brownlee, it is  
20 such a big problem and is of such depth that our per-  
21 sistence must continue, I suggest, for the benefit of  
22 all Canadians. What do you say to that?" A. "I  
23 don't agree."

24 THE WITNESS: I am satisfied with my answer.  
25 To be fair, I wonder if the reporter would read the  
26 next one because I do not in any way want to have on  
27 the record an answer that is not quoted correctly.

28 THE REPORTER: "And at the same time, if,  
29 and I think we can agree on this, the national interest  
30 requires that grain move to export positions at no





1  
2 greater cost than now moving for the foreseeable  
3 future?" A. "Agreed."

4 MR. SINCLAIR: Q. That is to the farmer?

5 A. Yes, I agree. Let us restrict it to  
6 grain because if you get into flour and feed and things  
7 of that kind I am not sure I am able to make an answer.

8 Q. Is it the view of the UGG that flour  
9 does not require ---

10 A. I did not say that. I said when you  
11 come to flour and feed I have not made a study of it, I  
12 am not in a position to make an answer one way or the  
13 other.

14 Q. What you are saying is your experience has  
15 been your experience has been with grain, cereal grains,  
16 not the flour part of the business?

17 A. Our operation consists of taking in the  
18 grain at country elevators as agents for the Canadian  
19 Wheat Board, putting them through our country elevators,  
20 sending the grain down to the terminals and turning it  
21 over to the Canadian Wheat Board, and when we have done  
22 that we have finished our job. That is the only aspect  
23 of the grain business I try to pass an opinion on.  
24 When we get into the flour and feed business I do not  
25 consider I am in a position to answer any questions.

26 MR. HUNTER: You were merely following the  
27 wording in the statutory section of the article and that  
28 is grain and grain products?

29 MR. SINCLAIR: Q. No, grain and flour, and  
30 the way that reads has been in effect since 1927. Now





1  
2 that we have agreed that the cost of moving grain to  
3 the western Canadian farmer for the foreseeable future  
4 because it cannot without undue hardship be increased and  
5 it is in the national interest that it remains at its  
6 existing level, you would agree that that having been  
7 accomplished the railway problems must be looked at  
8 realistically and without extraneous feelings as to  
9 people's sensitivities arising from what might have to  
10 be done to meet changed conditions?

11 A. Oh, now, Mr. Sinclair, that is an  
12 involved question.

13 THE CHAIRMAN: That is something the  
14 Commission should deal with.

15 THE WITNESS: I think you will have to pardon  
16 me if I do not appear to follow the implications of  
17 that question through.

18 -

19 -

20 -

21 -





1  
2 Q. Mr. Brownlee, there is the other point  
3 which you raised and that was that you suggested that  
4 those changes in transportation conditions have presented  
5 problems to the railways, and I think you will agree  
6 that the railways have been taking action to meet these  
7 problems raised by changed conditions, for instance, in  
8 the passenger field, in the merchandise servicing field  
9 and in the provision of specialized equipment. You will  
10 agree with that?

11 A. Yes, to this extent, that I understand  
12 that studies are being made and that certain changes  
13 have been made, and I hope they will tend to the partial  
14 solution, at least, of your problems; but I wouldn't  
15 want you to ask me if I agreed with everything that is  
16 being done, in a personal way, again; but I do not  
17 consider my judgment to be wonderful as to matters of  
18 railway administration.

19 Q. So in these areas we have dealt with the  
20 railways are taking some action to meet the problems;  
21 and then you move to this and you say that it is essential,  
22 particularly to the grain growing communities of western  
23 Canada -- to which you say the movement is so essential --  
24 that they should be efficient. Would that be a correct  
25 way of summing up your position?

26 A. At the present time, so far as developments  
27 have taken place, the railways are essential to the  
28 movement of grain, yes.

29 Q. And it is of substantial interest to the  
30 western Canadian grain economy that the railways be





1  
2 efficient?

3 A. I would hope that they would be efficient,  
4 yes.

5 Q. And you would agree that, to be efficient,  
6 the railways have to be financially sound...

7 A. No, I don't agree with that.

8 Q. I hadn't completed my question.

9 A. Pardon me if I interrupted you.

10 Q. You would agree that, to be efficient,  
11 the railways have to be financially sound, and I think  
12 your position is that if the freight rate structure in and  
13 of itself cannot put them in that position then the  
14 state may have to make up the difference; is that not  
15 so?

16 A. Well, isn't there confusion of terms here?  
17 If the state has to come to their assistance are they  
18 financially sound? I don't want to quibble about  
19 terms. What I do say is that the railways are essential  
20 to the grain economy of western Canada, the proper  
21 movement of grain from country elevators to terminals,  
22 and that in carrying out that movement the railways  
23 should be as efficient as possible. Now, when you  
24 get into the question of earnings -- the necessary  
25 earnings -- you have a different situation because  
26 there are railways in the world that are being operated  
27 efficiently where they cannot be considered in them-  
28 selves to be financially sound, but they are supported  
29 by the state.

30 Q. Mr. Brownlee, as a businessman, a company,





1  
2 to be efficient, you will agree, must meet its expenses  
3 and have some profit and the incentive to make a profit?

4 A. The ordinary company.

5 Q. Are you suggesting that this is not the way  
6 a railway should...

7 A. I am suggesting, Mr. Sinclair, that it  
8 may be quite possible, before you work out the solution  
9 for the railways, that the state may have to come to  
10 your assistance in quite a substantial way. If they  
11 do you cannot be said to be financially sound.

12 Q. Well, Mr. Brownlee, you have...

13 A. In other words, if I might add this,  
14 the movement of grain and the movement of commodities  
15 in the national interest must continue and if the  
16 continued increases in freight rates serves but to  
17 drive a great part of the traffic to other places  
18 and that results in your having a dangerous situation  
19 developing then the state may have to come to the  
20 assistance of that public utility. I distinguish  
21 between public utilities and the ordinary corporation.

22 Q. The point, Mr. Brownlee -- and I think  
23 possibly you would agree with this -- is that the  
24 railways, being essential particularly to the move-  
25 ment of the western grain crop and the national  
26 interest being involved in the movement of this grain  
27 crop at specific prices, national assistance in that  
28 light might be justified to the railways?

29 A. We don't disagree with that at all.  
30 Where we do disagree with you is that for some reason





1  
2 that I can't understand the railways are taking a  
3 round-about and most difficult approach to the whole  
4 question where, in my judgment, there is such a simple  
5 and direct approach and that is to look upon the  
6 railways as an integrated whole having to perform a  
7 service for the people of Canada. If the overall  
8 picture is such that they cannot continue, then, on  
9 the overall picture, some relief should be given; and  
10 for the life of me I cannot see why, in the working  
11 out of that problem, it is necessary to focus attention  
12 upon one single commodity and make it the scapegoat.  
13 We are not trying to make a scapegoat of any commodity;  
14 we don't want commodities to be made scapegoats.

15 Q. Well, Mr. Brownlee, the position of the  
16 railways in that respect is a matter for argument which  
17 we are going to deal with at a later date.

18 There is another point on which I would  
19 like an answer and I am now leading a little into it.  
20 It has reference to an item that you raise in your  
21 brief, and that was to make income taxes not an expense  
22 in the fixing of a permissible level of income, and  
23 that the Income Tax Act might be amended -- this is  
24 your suggestion to the Commission -- to exempt from  
25 income tax net railway income.

26 Now, I ask you if, in the light of that  
27 suggestion, you would accept an amendment, and that is  
28 that it would be provided, in addition, that such an  
29 exemption from income tax would be applicable to  
30 railways who had a significant amount of freight volume --





1  
2 I suggested some 10 per cent -- arising from movement  
3 of traffic under the rates prescribed in Section 328  
4 (6) of the Railway Act.

5 You were going to consider that overnight?

6 A. Yes, I did consider it, and I came to  
7 the conclusion that this is an example of your de-  
8 lightful humour which I have experienced so much, and  
9 that you don't really take this aspect of your question  
10 seriously, because from what I have said you must know  
11 the answer.

12 Q. Well, Mr. Brownlee, I ask it in all  
13 seriousness?

14 A. Well, if you are asking it seriously,  
15 then, let me say No.

16 Q. Then, let me put this question: Is  
17 not the U.G.G. anxious to have reaffirmed the situation  
18 that grain will continue to move at the cost to the  
19 farmer at which it is now moving?

20 A. What has this question to do with the  
21 proposition of an amendment to the Income Tax Act to  
22 exempt certain revenues to a public utility? What  
23 has that to do with the question you have just asked?  
24 What is the relationship between the two questions?

25 Q. Well, I think I should make it clear to  
26 you that it was a suggestion I was putting forward,  
27 that I thought it would result in the farmers of  
28 western Canada recognizing that there was to be an  
29 exemption from income tax in respect of railway income  
30 only so long as the statutory rates on grain were in





1  
2 effect, and only where a significant volume of the  
3 total freight was carried at that rate; and that, in  
4 the light of that...

5 A. Let me try to come to grips with the  
6 question. It is a question which you ask seriously...

7 Q. Yes.

8 A. ...and your question, as I understood  
9 it, was whether, in the proposal which we had made  
10 with respect to income tax, we would have attached  
11 a rider that it would apply only to cases where a  
12 percentage of grain was handled under the Crow's Nest  
13 Pass agreement -- the Crow's Nest Pass rates?

14 Q. Yes.

15 A. That was the question?

16 Q. Yes?

17 A. Then, my answer is that I have already  
18 told you the reasons why we will not agree to your  
19 proposal, and surely those reasons apply with equal  
20 force to this question which you have just asked.  
21 Why should we tie up income tax charges, conferring a  
22 benefit on a particular commodity? Surely income  
23 tax has to do with the complete operations of  
24 institutions or corporations?

25 THE CHAIRMAN: I think we understand your  
26 position.

27 THE WITNESS: Thank you, Mr. Chairman.  
28 I am sorry if I have carried the argument too far.

29 THE CHAIRMAN: Go ahead, Mr. Sinclair.

30 MR. SINCLAIR: Q. I then must ask you,





1  
2 Mr. Brownlee -- and I am sure you will understand  
3 that I do not wish to press you -- but I must ask  
4 you the question I put before, and you have the  
5 explanation of why I put it. The question is this:  
6 Is it not, in your opinion, in the interest of the  
7 western Canadian farmer -- the grain farmer -- to  
8 have reaffirmed the present, existing statutory rates  
9 on grain, and to have that affirmation conditioned  
10 in some way upon the railways accepting certain income  
11 tax provisions?

12 A. I have your question now, yes. My  
13 answer is that we see no reason whatsoever for any  
14 reaffirmation of the Crow's Nest Pass rates. We  
15 are suggesting that they be left strictly alone at  
16 the present time; that there is no reason for bringing  
17 them up for reaffirmation or for even discussing; that  
18 the problem of allowing grain to move to export  
19 positions as efficiently as possible depends upon  
20 the overall position of the railways and their ability  
21 to carry on. And I still say that we will get to  
22 the solution of the railway problems of Canada much  
23 more quickly if we will forget individual commodities  
24 and look to the overall picture.

25 Q. That is your position. You have made  
26 it clear. I must ask you again: Is not the western  
27 Canadian farmer concerned about affirming these  
28 principles, general in Canada -- not confined to  
29 railways -- pretty general -- that it is unrealistic  
30 to continue to charge at a rate that was fixed





1  
2 over 60 years ago?

3 A. Are you asking if the western farmer  
4 is concerned about this?

5 Q. Yes?

6 A. No.

7 Q. He is not concerned with the position  
8 of constantly feeling that this rate is subject, at  
9 every opportunity, to analysis and that it can be in-  
10 creased in some way or another? He is not concerned  
11 about that?

12 A. Well, when you ask the question "Is  
13 he concerned?" -- those of us who are in agriculture  
14 naturally do not like to see it raised the way it  
15 has been raised, but we certainly deny the suggestion  
16 that the opposition to those rates is widespread in  
17 Canada. In our opinion it is confined to the railways  
18 pretty much and, possibly at the most, to the producers  
19 of a few commodities. Generally speaking, Canadians  
20 from the Maritimes to the Pacific Ocean have not been  
21 expressing very much concern about the Crow's Nest  
22 Pass rates.

23 Q. Then, let me ask you this: If the  
24 amount of dissatisfaction to the rates is as wide  
25 as I think it is, or only as wide as you think it is,  
26 would it not be to the advantage of everyone --  
27 farmers and all Canadians -- to have this question  
28 set aside and put in a position where the view contrary  
29 to yours had been given some weight and recognition  
30 and, at the same time, your views had been given some  
weight and recognition? Would that not be correct?





1  
2 A. Not necessarily at all. If there is  
3 concern expressed in some quarters and if we are  
4 convinced, as we are, that such concern is not well-  
5 founded and established, the only solution that has  
6 been proposed so far is entirely, in our opinion, an  
7 unsound one. I don't see any reason why we should be  
8 unduly apprehensive.

9 Q. Mr. Brownlee, certainly if the grain  
10 rates are not paying their due proportion of trans-  
11 portation costs, if they are not, this necessarily  
12 puts these rates sooner or later in jeopardy; you  
13 will agree with that, if they are---

14 A. Don't you think we will make more pro-  
15 gress in this matter if we just wait and see the re-  
16 sults of the work of this Commission and the con-  
17 clusions of the studies that are being made, and par-  
18 ticularly the evidence that will be produced by Mr.  
19 Frawley and Mr. Mauro, and then we will then see to  
20 what extent your statement at the present time may be  
21 correct, and having done that then possibly you and I  
22 can resume this argument on the point that you are now  
23 raising?

24 Q. May I ask you this -- and if you feel  
25 you don't want to answer you don't have to -- you say  
26 it is hypothetical, and I will take that, but may I  
27 ask you this: if these rates are not bearing their due  
28 proportion of transportation costs do you not think  
29 that sooner or later it places those rates in jeopardy?

30 A. Obviously any answer that I might





1  
2 give depends entirely on that big "if".

3 Q. Absolutely.

4 A. And I am not going to go any further  
5 than I have already gone because it seems to me that I  
6 have stated my position with complete clarity so far  
7 as the various questions you have raised are concerned.

8 Q. I think I understand your position, Mr.  
9 Brownlee, and this is my final question to you: the  
10 United Grain Growers are not today handling as large a  
11 proportion of the total marketings of western grain as  
12 they were at some period in the past; that is correct, is  
13 it not?

14 A. Oh, well, now, Mr. Sinclair, you are  
15 asking a question there that is entirely unfair, if I  
16 may say so. We handle today ---

17 Q. Don't misunderstand me; I will make it  
18 clear that what I am saying is there has been a change  
19 in the market pattern in western Canada; pools have gone  
20 up and the percentage of the total grain handlings by  
21 UGG may well be lower than they have been at some  
22 period in the past as a percentage of the total, but  
23 that doesn't make that a shrinking business. Your  
24 business may have increased, and while your percentage  
25 total of the whole grain marketings may have fallen,  
26 that fact alone doesn't make your business a shrinking  
27 business?

28 A. Well, as I say, I consider your question  
29 an unfair one because I don't know what period you are  
30 referring to. All I can say to you is this: that in





1  
2 the period during which I have been president and general  
3 manager of the company our percentage of business has  
4 been increasing.

5 Q. I know that and that is why I said at  
6 some time in the past.

7 A. If we go away back to 1930 ---

8 Q. That is not so long ago; sometimes I have  
9 to go back to 1897, so it is quite easy for me to go  
10 back to 1930.

11 A. Of course, Mr. Sinclair, I have to admit  
12 that the UGG is a small corporation and a young cor-  
13 poration compared to the Canadian Pacific, and when you  
14 go back to 1930 in our corporation you are going back  
15 a long way, and so I say to you that if you go back  
16 to the early days of the movement of grain in western  
17 Canada before elevators were even built and when our  
18 business consisted almost entirely of consigned grain  
19 and we were the only cooperative in the business at  
20 that time, I don't know what the comparison would be.  
21 I know last year we handled well over 70 million  
22 bushels of grain and I know that that measures up  
23 very highly in percentage when compared with any pre-  
24 vious year.

25 Q. Let me make the point which I want to  
26 make, Mr. Brownlee. I certainly don't want you to  
27 think that I don't respect the UGG; I think you know  
28 that I do. The point I want to make is this, and I  
29 think you will agree that just because the percentage  
30 of the total of a given business is lower, does not





1  
2 necessarily mean that the business is shrinking; the  
3 business can be growing but not growing at the same  
4 rate or not holding its same position in the light of  
5 changed circumstances and conditions?

6 A. I was going to ask what page you are  
7 referring to?

8 Q. You have suggested that the railways are  
9 a shrinking business because their percentage of the  
10 total market is not as high as it once was. Now, my  
11 point to you is that might well be, but necessarily  
12 that conclusion that you draw that the business is  
13 shrinking does not necessarily follow from that, and  
14 then you follow with certain stated statistics by  
15 looking at, for instance, l.c.l. that you have over-  
16 looked completely, and I suggest to you the mixing  
17 privileges, and I also suggest if you would look at  
18 the full car business and add the two together you will  
19 find a very different answer, and I would suggest to  
20 you that a proper analysis would indicate that the  
21 railway business in Canada is a growing business; it  
22 is not growing as rapidly as it once did and that  
23 because of changed circumstances and conditions it is  
24 not having the same percentage of the market, and I  
25 ask you if your analysis of the situation doesn't  
26 support that?

27 A. Well, I can only say this, Mr. Sinclair:  
28 we have produced certain statements here and we have  
29 produced certain figures in support of those. If  
30 those figures are incorrect and if, as you say, your





1  
2 business is a going business I can't do any more than  
3 congratulate you.

4 Q. Fine. Now, there is one other matter  
5 I promised someone I would ask you, and this has to do  
6 with your broad knowledge of certain parts of the  
7 law.

8 A. Oh, no!

9 Q. Could you draw to the attention of this  
10 Commission any time where the law had recognized a  
11 statutory contract?

12 A. Mr. Sinclair, I have not practised law  
13 for so long that I don't even regard myself as a lawyer  
14 now except to the extent of my membership in the  
15 Canadian Bar Association and that entitles me to say  
16 that I am a lawyer.

17 Q. Mr. Brownlee, let me ask you this: you  
18 do know that there are decisions -- I am quite sure  
19 that you know -- and I have one of them in mind  
20 that says that a statutory contract is unknown to the  
21 English law?

22 A. I am sorry, I don't know the decision;  
23 you will have to pardon me.

24 MR. FRAWLEY: What is the citation?

25 MR. SINCLAIR: I will assist my friend if he  
26 doesn't know it at a proper time to bring it to his  
27 attention.

28 MR. FRAWLEY: I didn't expect any more than  
29 that. Ordinarily when you ask counsel during cross-  
30 examination to give you a citation, he gives it to you





1  
2 immediately, such as my friend Mr. Cooper did yester-  
3 day, and if my friend doesn't choose to do so I can  
4 still live without it.

5 MR. SINCLAIR: I want to give you the page;  
6 it is 1950 A.C.

7 THE WITNESS: Will you favour me with a  
8 copy of the Decision, too?

9 MR. SINCLAIR: I will be glad to. It is  
10 known as the Attorney General of British Columbia and  
11 E and F.

12 MR. FRAWLEY: You should know all about E  
13 and F.

14 MR. SINCLAIR: I wish to thank you very,  
15 very much on behalf of Canadian Pacific, and I do wish  
16 to say to you that we appreciate you taking the time in  
17 coming down here, and while we have disagreed, appar-  
18 ently, in some of the positions you took, nevertheless  
19 we recognize that you have these views and we will meet  
20 them as best we can when we get an opportunity to argue  
21 from the evidence.

22 THE WITNESS: Mr. Chairman, may I say that  
23 it has been a great pleasure for me to be here and to  
24 meet -- particularly to meet my friend Mr. Sinclair  
25 again, and I know that in the answers that have been given,  
26 or at least I hope a few of the answers that have been  
27 given, were given in the way in which the questions were  
28 asked.

29 MR. SINCLAIR: Certainly.

30 THE WITNESS: It is always a pleasure to take





1  
2 issue with someone where we can do it in good spirit.

3  
4 BY COMMISSIONER BALCH:

5 Q. I am very interested in your remarks  
6 on the curtailment of passenger service, and so forth.  
7 Now, the UGG reproduces in their brief something by  
8 Mr. Rod Kerr, Q.C., who is now the Chief Commissioner,  
9 who says:

10 "The rule followed by the Board in appli-  
11 cations for leave to abandon such opera-  
12 tions and operations involving serious  
13 curtailment or discontinuance of scheduled  
14 train operations . . ."

15 And then he goes on to state what method the Board  
16 followed.

17 A. Yes.

18 Q. And it states there that the industries  
19 will not be unduly inconvenienced or prejudiced, and  
20 so forth, and the UGG goes on to say that any saving  
21 the railway might make by abandonment must be weighed  
22 against the loss and inconvenience to others which  
23 might result. That is what the UGG says. Now,  
24 I want to ask you, and you may not want to answer,  
25 would you think that situation should be taken to  
26 the loss of employment because of the abandonment?

27 A. Yes, Mr. Commissioner; as a matter of  
28 fact, in the last three applications that we made in  
29 western Canada, the Beulah line and the Delaraine line,  
30 and I am certain that the Transportation Commission has





1  
2 heard evidence on that very question and did take it  
3 into consideration.

4 Q. Well, they usually don't, they don't  
5 usually take that into consideration.

6 A. Well, I remember quite distinctly in  
7 reading over the evidence that was given at the hearings  
8 the statement of a number of permanent employees that  
9 would be retained by the railways and the number that  
10 might not be. Those that were retained, I understood  
11 would be moved to some other part of the system.

12 Q. In your remarks on the curtailment of  
13 traffic, do you feel that the railway planners and not  
14 the consultants are at least considering the travelling  
15 public or should be considering them more than they are  
16 doing?

17 A. Well, Mr. Commissioner, I may have gone  
18 further than I should have gone as a witness here, because  
19 I presume a witness before this Commission should only  
20 deal with matters in a way which he can support, a  
21 study. I apparently went out on a limb and expressed  
22 a personal view only, and I do hold that personal  
23 view, that some of the Decisions that are made do not  
24 fully take into account the convenience of the travelling  
25 public. I think that the same savings could be arrived  
26 at by some other form of agreement which would not add to  
27 the cost, but it is just one of those opinions that a  
28 man forms as he travels across the country, and Mr.  
29 Sinclair and Mr. McDonald and their technical men should  
30 be able to show me in five minutes that I am entirely





1  
2 wrong.

3 Q. Well, the reason I asked you the question  
4 is because a man of your type is travelling across the  
5 country and must have certain opinions, and I feel that  
6 that is something that should be on the record.

7 A. Well, since I have gone out on a limb,  
8 possibly I can make one more statement in support of  
9 the view which I have expressed. As a business man  
10 I find my time pretty well engaged, and some times it  
11 is a matter of considerable importance whether I can  
12 leave on one train in the morning or on another train  
13 at night, or whether I may have to take the plane.

14 Now, in the change which I understand has  
15 been made -- formerly they had two trains leaving in  
16 the morning at the same time in certain directions,  
17 and two trains leaving at another time of the day,  
18 and the coaches on both trains were half empty. Now,  
19 what they have done, they have taken off a pair that  
20 moved at the same time, and so now when I come to  
21 consider how I am going to travel from point A to  
22 point B, I have only one train time in the day, and if  
23 it is not convenient then I have got to look to the  
24 plane or some other way of travelling.

25 Now, for the life of me I can't see why in-  
26 stead of doing it that way that the two railways  
27 have not got together and said that one train on one  
28 line will move at one time and another train will move  
29 at another, and give the business men some opportunity  
30 at least of accommodating their time. That is what





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Brownlee  
(Balch)

14356

1  
2 appeals to me as the commonsense view, but I may  
3 be wrong.  
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1  
2 Secondly, for the life of me I cannot understand  
3 why there are from Winnipeg to Montreal or Winnipeg to  
4 Toronto two lines of railway leaving within a couple  
5 of blocks of one another in Montreal and ending up at  
6 the same union station. Surely some plan can be  
7 worked out for one line to be built up to a standard  
8 of speed of seventy, eighty or ninety miles an hour  
9 or more moving instead of having both trains move  
10 at the same time from the one point of origin to the  
11 same point of destination. Now, Mr. McDonald says  
12 they will produce witnesses that will show my ideas  
13 are entirely pointless but I throw them out as something  
14 which I know puzzles a great number of people besides  
15 myself because I have heard many comments.

16 COMMISSIONER BALCH: Thank you.

17 BY COMMISSION GOBEL:

18 Q. Mr. Brownlee, I believe that I am clear  
19 on your way of thinking and the thinking of your group  
20 in the problems that you present in these two briefs.  
21 However, what I am wondering is how to apply your  
22 suggestion and what your suggestion would imply if  
23 they were followed. I believe to start with you say  
24 the objective of a railway transportation should not  
25 be something financially sound, as Mr. Sinclair was  
26 saying, but the objective should be to have efficient  
27 transportation in the best interests of Canada and  
28 if it has to serve the best interests of the region  
29 and the people and there is a deficit then it does not  
30 make much difference if there is a deficit. That is





1  
2 the objective and assistance should be given by the  
3 State. Am I correct?

4 A. I am sorry if I conveyed that meaning to  
5 you. I was asked the question first whether or not  
6 the service of a railway should be efficient and I  
7 think it should according to the best definition.  
8 Secondly in order to be efficient it must be  
9 profitable and I said in reply to that "not necessarily  
10 so". I can visualize a condition arising that no  
11 matter how efficient the railways are because of the  
12 challenge which they now confront they cannot raise  
13 rates to the point that will make it profitable. As  
14 Mr. Gordon said before the agricultural committee in  
15 the House of Commons, "We may now have reached the  
16 point of vanishing returns, diminishing returns and  
17 we now come to the place where we cannot continue to  
18 increase rates."

19 Now, I say if in order to give a service which  
20 is necessarily in the national interest, to give it  
21 efficiently at a time when because of the challenge  
22 which meets the railways they cannot earn a profit  
23 then we may have to go to the State and the State  
24 may have to give some assistance for the time being.

25 Q. But the first objective would be to  
26 give the service, not necessarily to make the money.

27 A. I hope I made it clear that we regard  
28 railway transportation in Canada as a public utility  
29 that is absolutely necessary to the economy of the  
30 country.





1  
2 Q. And, secondly, if there is assistance to  
3 be given you do not want it tagged with one commodity  
4 or one section of the organization. You do not want  
5 to have a passenger deficit paid by your subsidy for  
6 passenger any more than you want a deficit on grain  
7 transportation paying a subsidy on grain. You want  
8 it on the overall deficit in transportation.

9 A. I am awfully obliged to you for raising  
10 that question because it gives me an opportunity of  
11 replying in a way that I have not been able to yet.  
12 Yes, you have interpreted our submission correctly.  
13 We think, in the first place, that it would be unwise  
14 and unnecessary in the solution of railway problems  
15 to reach a point where we had to have Parliament  
16 one day considering a subsidy for passenger traffic  
17 and considering another day a subsidy for the closing  
18 of branch lines and another day considering a subsidy  
19 for something else. We think it would be cumbersome;  
20 we do not think that proper consideration would be  
21 given. What we say is to treat the railway as an  
22 integrated business, look at the overall results,  
23 study the question as to whether they are doing what  
24 they should to cut down unnecessary costs and if  
25 after looking at the whole integrated operation and  
26 the results we come to the conclusion, for the time  
27 being, that they have to have some support, some  
28 extra revenue to carry through then by all means  
29 let the State come through and give a subsidy.

30 Q. Then if this Commission or the government





1  
2 follows your suggestion and we apply it to 1960 or  
3 last year it would mean that the C.N.R. will have  
4 assistance in the order of \$30 million and the C.P.R.  
5 will not get a cent because they have no deficit.  
6 That is what it would imply?

7 A. I do not quite follow that. The Canadian  
8 Pacific is taken as the measuring stick to date and  
9 I presume it will continue to be regarded as a  
10 measuring stick as to whether the integrated railway  
11 operations are profitable or not. I am quite content  
12 that the government should continue to make the C.P.R.  
13 the yardstick. I think there is a paragraph in the  
14 Turgeon report at page 293 which expresses my view  
15 very completely:

16 "In short, while the Canadian Pacific  
17 Railway as a privately owned public utility  
18 is entitled to an opportunity to earn a  
19 fair return on its railway investment; the  
20 Canadian National Railways as a socialized  
21 enterprise should be expected to do the  
22 best it can at rates fair to the Canadian  
23 Pacific. The attempt to establish  
24 comparability, either to excite emulation  
25 or to make one railway a check on the other  
26 should be definitely abandoned. It is  
27 not practicable to arrange suitable  
28 handicaps for such a race."  
29  
30





1  
2 Q. In answer to Mr. Hume at page 14260 of  
3 the transcript you said it may be that in the  
4 interests of all the people of Canada it would be  
5 better for some assistance to be given by the  
6 State. Suppose a situation came about whereby  
7 assistance is needed and, using the C.P.R. as a  
8 yardstick -- no taxation without representation --  
9 some kind of government body, according to your  
10 concept, would have to control the way the money  
11 was spent.

12 A. No.

13 Q. If they have assistance?

14 A. No. I suggest to you with the greatest  
15 respect that in the subsidies that are being paid  
16 by the Dominion Government now and have been paid  
17 for some time, and in the \$20 million subsidy paid  
18 last year, there is no attempt on the part of  
19 governments to interfere with the every-day business  
20 of the railways. They did ask for a cut in  
21 rates, that is all.

22 Q. That would not be exactly the same thing.  
23 That is for specific purposes. But with your  
24 suggestion these specific purposes disappear, and  
25 it is the overall operation, and if it is well-  
26 managed and there is a deficit by the C.P.R., it  
27 will have to be taken care of.

28 A. Let us assume the time should come when  
29 a very considerable amount of money would have to  
30 be voted by parliament for the benefit of the Canadian





1  
2 Pacific Railway Company: I would assume that we  
3 have reached that development in our democratic  
4 institutions that the government would be glad to  
5 leave the details of the operations of the Canadian  
6 Pacific Railway without interference to the men  
7 capable of carrying it out. I can't see there would  
8 be any need for interference.

9 Q. In your brief regarding the branch  
10 lines do you visualize, as a man of great experience  
11 in elevators, rail transportation and farmers, that  
12 within fifteen or twenty years the number of those  
13 branch lines might be reduced, through easier  
14 transportation and better mechanization, by maybe  
15 one-third or fifty per cent?

16 A. By fifty per cent?

17 Q. Yes?

18 A. If you ask me to state a percentage I  
19 could not do it. I could only answer your question  
20 in this way ---

21 Q. I mean a great reduction; of that  
22 order -- one-third -- a substantial reduction?

23 A. I hope you will see my position in  
24 this respect that neither I nor, to my knowledge,  
25 any of our officials have taken a map of the  
26 railway system in western Canada as yet and tried  
27 to estimate how many of the branch lines now there  
28 might be removed in the next ten years, and it  
29 was partly because of that fact that I ventured  
30 to make the suggestion yesterday that it might be





1  
2 worthwhile for the railways and the companies  
3 operating elevators to set up some kind of joint  
4 study committee to see if we could arrive at some  
5 rough and ready agreement as to the branch lines  
6 which might be closed over a period of five, ten  
7 or fifteen years and not hurt the general  
8 economy of western Canada. As a matter of fact,  
9 our traffic man Mr. Stimson, I believe, told me  
10 that from conversations he had had with some of  
11 the officials of the railways that they themselves  
12 were considering a study somewhat along that line  
13 and might be calling us in.

14 Q. I will tell you why I was asking the  
15 question: it has been suggested -- and I have  
16 forgotten whether at these hearings here or in  
17 discussions outside -- that maybe there was no  
18 deficit on the main line for grain and that the  
19 deficit there might be, say, on the branch lines.  
20 I was wondering if a man of experience like you  
21 could visualize that in fifteen or twenty years  
22 sufficient branch lines could be eliminated to  
23 make them as profitable as the main line?

24 A. To make the remaining branch lines  
25 profitable?

26 Q. Yes?

27 A. I am not sure that that is possible  
28 at all. Again, Mr. Commissioner, we get down to  
29 this fundamental question, that is, how are you  
30 going to allocate costs between the main line and a





1 branch line. Railways' main lines cannot operate  
2 in North America without branch lines. The branch  
3 lines are the collecting agencies and the value  
4 of a branch line to a railway is something that is  
5 very hard to determine. May I give my own personal  
6 experience on that: there was a time when the  
7 government in Alberta operated what we considered  
8 a branch line from Edmonton up north into the  
9 Peace River country. On any test which we could  
10 make the operation of that line was unprofitable  
11 because we were getting the short end of the haul,  
12 but apparently the two main railways thought  
13 differently because they paid us a very large sum of  
14 money in order to get those branch lines. So, I  
15 don't think it is possible to fairly allocate the  
16 earning power of a certain branch line as against the  
17 main line. I would say most certainly intercity  
18 traffic is bound to be more profitable than what  
19 goes over a branch line, but when you come to the  
20 test as to whether this branch line or that branch  
21 line is profitable, then you are into a very difficult  
22 question, and as far as I can see the best results  
23 will come with the exercise of a common national  
24 spirit and the real desire to benefit our economy;  
25 different interests can get together and study the  
26 question and see what we can work out, and over a  
27 period of years I would have hopes we would be able  
28 to come to some very good conclusions.

29 MR. GOBEIL: Thank you, sir.  
30





1 THE CHAIRMAN: Mr. Hunter?

2 MR. HUNTER: We have no questions on re-  
3 examination, Mr. Chairman.

4 THE CHAIRMAN: Thank you very much, Mr.  
5 Brownlee, for coming. We have enjoyed your  
6 evidence very much and you have made a real  
7 contribution. What may be accepted by the  
8 Commission I cannot assure you, but I think we  
9 understand your position that you do not want the  
10 door open even though there may be strings to it  
11 as Mr. Sinclair has proposed. You want it left  
12 alone?

13 MR. BROWNLEE: Under present conditions, yes.  
14 May I thank you Mr. Chairman and Commissioners for  
15 your kind attention during the time I have been  
16 in the witness box and for the very courteous hearing  
17 I have received both from you and all of the  
18 others who have taken part.

19 THE CHAIRMAN: We will adjourn now until  
20 10:00 a.m. Monday, September 12th, 1960.

21 ---Adjournment.  
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